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12 MAY 1987

# China Report

ECONOMIC AFFAIRS

SPECIAL NOTICE INSIDE

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FOREIGN BROADCAST INFORMATION SERVICE

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## PROVINCIAL AFFAIRS

### TIANJIN: NI ZHIFU ON ECONOMIC COOPERATION

SK280725 Tianjin TIANJIN RIBAO in Chinese 12 Mar 87 pp 1, 2

["Excerpts" of article by Ni Zhifu, member of the Political Bureau of the party Central Committee and secretary of the Tianjin Municipal party committee, concerning his two investigation tours to some plants in Tianjin during the first half of 1986: "On Lateral Economic Cooperation"--article initially published in 1987 issue of LILUN YUEKAN [THEORETICAL MONTHLY]]

[Text] Before liberation, China was an extremely backward semi-colonial and semi-feudal country for which modern industry represented only 10 percent of the entire natural economy. Small family-based handicraft industrial production dominated. Our country's socialist economy was gradually developed on this small-scale, decentralized conservative, and backward economic basis, and through three major transformations during the early period of the founding of the PRC and the later large-scale planned economic construction. Meanwhile, in light of the needs of that time when economic construction was just beginning, our country imported a foreign pattern, and established an entire highly centralized and unified economic system, which played a definite role in the economy. However, restricted by development of the productive forces and outdated systems, and affected by the ideology of small-scale production and traditional concepts, enterprises were firmly constrained by departments and regions. Basically, this closed economy was restricted by the old patterns of "large and all-embracing," and "small and all-embracing." This restricted further development of the socialist productive forces. If we are to promote economic structural reform, liberate productive forces, and build socialism with Chinese characteristics, we must discard the old concepts of natural economy and product economy, and firmly foster a new ideology such that, only by fully developing the commodity economy and exerting genuine efforts to invigorate enterprises, can we realize China's economic modernization. If we fail to deeply understand this issue, and ideologically keep pace with the historical progress of reform, or if we act against the objective law of the commodity economy, we will undermine the four modernizations drive. We should realistically manage things in line with the laws and regulations of the commodity economy, break with the old systems that created barriers between different departments and regions and gave no full decision-making power to enterprises, reform the closed organizational structure and the small-scale production form among enterprise, and organize socialized large-scale production in line with the principle of specialized cooperation. To promote socialist commodity economic development, we must conduct lateral economic cooperation among enterprises.

## Cooperation and Specialization Should Be Closely Integrated and Supplement Each Other

Tianjin is our country's oldest industrial base with a long history of carrying out specialized large-scale socialist production, with many experiences and lessons worthy of review and summary. For example, during 1960's and 1970's, some enterprises carried out specialized production in an attempt to change the organizational structure of "large and all embracing," and "small and all-embracing." However, they failed and fell backwards for various reasons. Why have we failed to develop specialized production? One reason is that we have failed to stress cooperation in relevant economic policies. During the current economic reform, we should pay attention to organizing specialized production and guiding enterprises to carry out lateral economic cooperation in line with the demands of the strategy for economic development. Through cooperation, we should fully tap the potential of the existing human, material, and financial resources to cooperatively form new productive forces. Our economic reform should be conducive not only to developing specialized production, but also to promoting lateral cooperation among enterprises. Over the course of developing lateral economic cooperation among enterprises, we should pay attention to resolving this issue. We should fully manifest policies in our work, restrict those that should be restricted, promote those that should be promoted, and support those that should be supported. We should study and formulate some policies, stimulate enterprises to engage in specialized production, make specialized enterprises adapt themselves to social demands, and turn the closed economy into an open economy. For example, some mold manufacturing workshops of large plants that serve their own enterprises and society, should adopt different policies and produce molds in line with social demands. They may enjoy preferential tax and credit policies. These mold workshops are allowed to operate as independent accounting units and, in coordination with specialized mold plants, to join the associations. Thus, priority can be set by concentrating their forces. Policies should be formulated to reward enterprises the advanced testing equipment and surveying instrument which experience a higher utilization ratio and are available to society. Procedures should be carried out to impose fines on enterprises that are unwilling, although able, to make their equipment and instruments available to society: on enterprises that provide insufficient power for their equipment and instrument; and on enterprises that leave their equipment and instruments unused. During the Seventh 5-Year Plan, Tianjin should develop lateral economic cooperation to vigorously increase the production quality famous-brand products and products in short supply, to satisfy the expanding demands of exports, to develop an export-oriented economy, and to develop the processing of expensive light industrial products, fine metallurgical industrial products, and small mechanical and electronic products. Only when we exert the greatest efforts to upgrade the technological levels of the production of basic technologies, basic materials, and basic component parts (which are called the "three basics" for short) can we provide basic conditions and advanced technologies and equipment to develop products with competitiveness and accelerate the pace of turning scientific research findings into productive forces. We must also supplement and perfect policies conducive to developing specialization and cooperative production in an effort to help enterprises lay a fine and solid foundation for their key production processes.

## We Must Have New Ideas, Thinking, and Methods To Conduct Cooperation

Developing lateral economic cooperation based on delegating decision-making power to the enterprises is new and a new task that crops up over the course of economic system reform. Through the development of lateral economic cooperation, new productive forces will be created, fine production factors will be combined on a larger scale and both enterprises and society will increase their economic results. As Marx said, "Productive forces created by cooperation and the division of labor are free of charge, but are natural social labor forces." ("On Capital [as printed] Volume I, page 425) The key to smoothly developing cooperation is to safeguard the decision-making power of the enterprises. The enterprises' requirement for cooperation is a type of decision-making power. Responsible departments will encroach on the decision-making power of enterprises if they do not permit enterprises to conduct cooperation. By grasping cooperation, we should promote the development of the work to streamline administrative procedures and delegate power to the lower levels, and expose and eliminate whatever exists in the current systems, rules, and regulations that obstructs the progress of cooperation.

The development of lateral economic cooperation should be carried out with the support of the departments in charge of overall work and other responsible departments. Presently, enterprises are not given free rein to develop cooperation because barriers between departments seriously exist, regions are blocked, the work of expanding the enterprises' powers is not ideal, and the enterprises' ordinary production and management activities are unduly restricted. Comrade Xiaoping criticized that departments and regions have continued to retreat from enterprises' power just as the central authorities have repeatedly stressed delegating power. How can the central authorities' idea of delegating power to the lower levels be implemented like that? Some enterprises have complained that the obstacles to expanding their decision-making power and conducting lateral cooperation originated mainly with responsible bureaus and administrative companies. Justly speaking, except for problems that concern the rigid obstacles brought about midway, some comrades of party and government organs have failed to thoroughly solve problems that concern the ideological awareness of delegating power and conducting cooperation, and some current policies and management methods are not conducive to smashing the old systems. Another situation is that over the course of the old system being replaced by the new, some people, when they face difficulties and problems, simply adopt the course of reform or adopt old systems to replace the new ones. Thus, to solve problems that concern delegating power to the lower levels and conducting cooperation, we must first eliminate the influence of some traditional ideas and habits and fundamentally improve our guiding ideology. Particularly, the vast number of party members and cadres, especially leading cadres, should have a lofty realm of thought to face problems that concern linking reform with the interests of regions, departments, and individuals. The party's ultimate target is to realize the socialist system of communism and its fundamental purpose is to wholeheartedly serve the people. The party itself has no special interest and will dissolve by itself when all of mankind is completely emancipated. Therefore, in conducting reforms, we should determine whether our endeavor to ponder questions and do things is in conformity with the



fundamental interests of a vast number of people or favorable to establishing a new system. By considering the four-modernizations program as our own task and resolutely proceeding from the interest of the whole, we should truly return to the enterprises the rights that originally belonged to them and support or help them to establish economic cooperation to promote the development of social productive forces. Along with the drive to delegate power and establish economic cooperation, concerned government departments should gradually change their original functions and overlapping structures or actively dissolve by themselves. During the conducting of reforms, our work of delegating power and simplifying structures should be suitable to macro-economic management and improving control and readjustment measures. Lateral economic cooperation should be suitable to the standard of the developing productive forces of the country. We should act realistically in line with economic law.

In conducting reform in rural areas, we should follow the road of allowing the people to commonly become wealthy. We have encountered such situation in conducting reform in the urban areas. Among the new economic associations and enterprise groups, there is a relationship of economic benefit based on the principle of voluntary and mutual benefit and development, and there is none of the rigidity of the former mandatory administration. Therefore, neither plants that turn out unique products nor those that produce associated parts should ignore the other's economic benefit and earn money alone. They should be more enlightened about the issue of right and interest, generously pay more attention to others, actively cooperate with each other based on benefits, and voluntarily establish economic groups that can mutually share weal and woe. According to the investigative data compiled by the specific trade, a plant engaged in the production of interior decorations and sanitation utensils, which had a poor situation to begin with, actively joined in technical coordination with specialized plants in Shanghai Municipality and Jiangsu Province by providing more benefit to them, and thus has presently greatly reinforced its strength and achieved rapid development in production. Other industries and trades should follow suit in setting up economic cooperation.

New economic systems are now being built and outdated systems are beginning to dissolve step by step. It is very possible for us to encounter many contradictions while replacing the old with the new. In particular, the old systems still play a quite large role in personnel and financial affairs and material supply and often make things difficult over the course of reform. Therefore, it is imperative for us to adopt transitional measures to gradually remove them and promote the enforcement of new systems as soon as possible. After establishing new economic associations, some enterprises have raised the concept that without a "chief housewife" there will be no center for doing things. Such an ideological obstacle should be removed. Of course, there are problems that concern the party's relationship and political approach to be dealt with. Indeed, at present we cannot do many things well completely without a "chief housewife." However, in the early stages of establishing cooperations, enterprises may find a governmental department on which they can depend and formulate a managerial method that they will implement. However, we must clearly know that economic associations are

economic entities, independent legal personages, and not appendages of any departments. In allocating, we should distinguish these associations from administrative companies and work out new measures to have the associations share more benefits when they make money and share less when they experience dull business. In this way, they will gradually forget the old concept of rigidly dividing administrative levels and will no longer contend with wage scales. We should also note that there will certainly be a large number of entrepreneurs, who, over the course of conducting reform in the economic systems, attempt to conduct reform, have strategic foresight, and can do things in a down-to-earth manner. Of these entrepreneurs, some will certainly become social activists. Along with the development of various undertakings and the increase of their contributions, their political and economic positions and social status will be acknowledged. In planning and conducting material supply and in lien with the different kinds of economic associations, efforts should be made to open some new channels, such as planning samples and measures to directly supply materials. We should first conduct pilot work in all measures favorable to production and establish new systems to probe new experiences. In building organizational structures, we should refrain from building them at every level and indulging in the bureaucratic system, and must build few such organs, but ones that are full of capable personnel, highly work effective, and open-minded. All nominal personnel slots should be removed from these organs. All in all, only by simplifying administration and employing capable personnel able to double another's work can our pioneering undertaking proceed.

#### We Should Promote Technological Progress Among Enterprises Through Cooperation

Tianjin has a long history in industrial development and has trained a number of senior skilled workers, technical personnel, and management cadres. These persons are well-versed in technology and rich in practical experiences. They have the ability to produce one or two new products. In the past, our municipality indeed produced some "new" products first seen in the country. Afterwards, it lost its superiority in producing these products due to its failure in mass production, its slow improvement in the technological level and in product quality, and poor economic results. Facts show that producing a few samples is absolutely different from mass production. When putting new products into formal production, we must have a certain amount of investment; a considerable number of skilled workers, technical personnel, and management cadres; fairly good production techniques; and new materials and new types of machinery and electric component parts that can cope with the properties of products. Without these basic production conditions, it will be impossible for scientific research achievements to be rapidly changed into practical productive forces. We should create necessary conditions for putting new products into production and pay particular attention to solving problems concerning technical facilities, production technology and development of trained personnel. Developing lateral economic cooperation is the best way out. Under a situation in which the technical forces are decentralized, and superiority is poor, we will get half the result with twice the effort if we merely rely on the efforts of an enterprise to develop new technology, new methods, new products, and new materials. However, if we pool the efforts of enterprises, the superiority of the part will become

the superiority of the whole. This will be beneficial to accelerating technological progress and raising our competitiveness.

To strengthen the technical superiority of enterprises and associations, we should fully display the role of the existing technical personnel on the one hand while training technical workers on the other. During the 1950's, when a worker entered a plant, he basically had to attend training in a skilled workers school. Afterwards, many workers had to serve their apprenticeship with some qualified workers after entering a plant.

At present, the technical level of some young enterprise workers is very low. They cannot meet the needs of modernized large-scale production. We should actively create conditions and run some demonstration plants for training technical workers. We should run some plant directors and engineers with theoretical and practical experiences to serve as principals and teachers, proceed from the actual production situation of enterprises, and train some competent personnel who know theory and have professional skills. In addition, we should adopt policies to encourage workers to study technology and make them know that studying technology has a good prospect. For example, we may implement the graded wage system and the technical title system, and should allow those workers who have been promoted to grade eight to have the title of technicians and to receive the wages of engineers after they have passed appraisal. In some foreign countries, enterprise technicians with special skills have high positions and salaries, for they contribute to developing production in the enterprise. Our socialist enterprises should be more reasonable in fixing the positions and wages of workers.

Specialization and cooperation should be combined with technological transformation. One of the key points of technological transformation is to raise the level of equipment. Although some enterprises have poor factory buildings, their equipment is good, making it possible for enterprises to display their role. Some other enterprises have good-looking factory buildings; however, their equipment is just a heap of rubbish with low efficiency and low precision, making it impossible for them to produce presentable products. The crux of technological transformation lies in raising the precision and automation of equipment to a higher level. In machinery production, we must draw support from electronic technology. While combining machinery production with electronic technology, we must not exert too much effort on factory buildings. At present, we do not have a large sum of money to improve factory buildings and equipment of enterprises at one stroke. We should attach prime importance to concentrating funds on transforming equipment, for this will enable us to tap out greater potential.

If we continue to not put enough work in technological assimilation, absorption, and creation at present when our technology is not up to standard, there will be no reserve strength for technological development, our enterprises will be backward, and we will be confronted with a dangerous situation in which our products are obsolete. Under the new situation in which our country's commodity economy is rapidly developing and market competition is becoming increasingly intense with each passing day, the previous practice of not changing products for several decades will fundamentally get us nowhere.



We must persist in the method of assimilating and absorbing technologies when they are brought in. For instance, at present, some of our enterprises only rely on buying technologies and equipment to upgrade their quality. The question is whether or not they will continue to buy if the world level is upgraded in the future. Therefore, when we buy technologies, we should conduct research on the basis of others' advanced technologies so that we will surpass theirs. We must make efforts to upgrade our own ability. One way to do this is to achieve intellectual development to upgrade the people's quality. Another way is to possess advanced machines and equipment. Our ability will truly be upgraded if we have both conditions.

It is certain that we should pay the price to achieve intellectual development and to train skilled persons. By so doing we can catch up with the advanced scientific and technological levels. Although some of our technologies are able to catch up with the advanced world levels at present, many years are still required for all of our technologies to catch up with the advanced world levels. In addition, we should continue upgrading our management level as well as strengthening ideological and political work. The current ways to technologically transform enterprises can be summed up in four categories.

First, we should pay the price to bring in complete sets of equipment and technologies which we cannot create in the near future in order to fill the gaps in technology.

Second, we should adopt "selective" methods to only bring in key technologies and equipment to make up for the deficiencies in our work procedures. Such a method with less investment and good efficiency will bring about advantages to the transformation of old enterprises. With a little money in our hands, we should spend our foreign exchange on importing the key work procedures that we cannot do or achieve.

Third, we should use digital display instruments, single-plate machines [0830 2647 2623], and computers to make old equipment create new results.

Fourth, we should organize forces to design and manufacture nonstandard equipment. In the past, most of the nonstandard equipment was designed and manufactured by the plants of various trades. Equipment and production lines of such a kind, if complicated, would not be manufactured well. Their quality was often low. Therefore, a group of specialized plants engaged in manufacturing nonstandard equipment should be established through reform, transformation, and readjustment. Machine-repairing plants of various trades should bring their roles into better play in this regard. At present, all localities of the nation spend a great amount of foreign exchange to bring in nonstandard equipment, and even use foreign exchange to import production lines, the same kinds of which have already been brought in, simply because they plan to expand production capacity. Such practices simply do not work. We must conscientiously analyze imported equipment and production lines; and must organize forces to study, assimilate, design, and manufacture the imported

equipment and production lines that are technologically advanced, that can yield high efficiency, and that we need in order to develop production. For instance, we can completely rely on ourselves to manufacture many universal machines and nonstandard equipment for assembling and processing lines and for mechanical and electronics part production lines. Through practices of production, we should improve and create production lines which are more suitable for us. By so doing we can save more foreign exchange for the state.

#### Study and Formulate the Policy of Encouraging Enterprises To Develop Lateral Economic Cooperation

Economic cooperation should be based on the self-determination right of enterprises. Decisions to participate in cooperation, to withdraw from cooperation, and to find cooperative partners should be made by the enterprises themselves. The duty of leading departments in charge of this work lies in paying attention to the newly developed situation; studying new problems; and helping various sectors involved in cooperation to know their strong points well, to select their best partners and plans, and successfully share the benefits. This also means that these leading departments should do a good job in being a "bridge" or "matchmaker" among the cooperative enterprises and in conducting service and readjustment work among them. Attention should be paid to refraining from "seeking uniformity in setting cooperation" simply by applying their administrative measures and rigidly combining these enterprises by adopting a "parental monopoly" method. Such a way runs counter to the law of economics and will result in hindering production development.

Efforts should be made to support lateral economic cooperation in line with the policy; to protect cooperation in line with the law; and to encourage these enterprises to get out of their small circles in which they only conduct self-service, inner circulation, and self-sufficiency, to free themselves from the economic hold in which they are big or small and embrace all kinds of production, and to launch into the vast field of economic cooperation. We should work out more new methods to push economic cooperation forward by comprehensively applying economic, legal, and administrative measures. At present, more efforts should be made to successfully draw up development plans, define direction and focus in the work, and formulate policies on encouragement. For example, according to the practical situation, enterprises that have joined in economic cooperation may enjoy the preferential treatment in the fields of financial affairs, tax revenues, credit loans, and commodity prices. Some capitalist countries have given certain subsidies to the enterprises that have suffered losses but that must be urgently developed. These countries will collect taxes from them when they have achieved full development. We should also study or apply some necessary policies favorable to developing economic cooperation and promoting economic construction, and formulate regulations and rules on safeguarding the legal rights and interests of the economic associations and of the enterprises that have joined in the associations. Departments without such regulations and rules should draw them up as early as possible, and those whose regulations and rules are not perfect

should immediately improve them. The industrial and commercial administrative departments should formulate managerial provisions for individually owned enterprises and should be responsible for approving the opening and closing of their businesses. All businesses that open or close without approval represent the attitude of not being responsible to society. Such a principle also applies to the opening and closing of economic association, which should absolutely refrain from setting up or disbanding their associations arbitrarily. The application for entry or withdrawal should be carried out in line with the contracts. There must be an effective managerial measure for dealing with the matter.

The CPC Central Committee has drawn up a grand blueprint for socialist modernization construction throughout China. At present, there is still a lack of a "subblueprint" or there might be a "subblueprint." However, the position of such a "subblueprint" might not be well placed in the central general one. We should first unify our thinking, work out an economic development strategy that can integrate the long-term purpose with the immediate one and play a coordinative role to the central general blueprint, and mobilize the people to unswervingly wage a struggle to fulfill this strategy.

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CSO: 4006/578

## PROVINCIAL AFFAIRS

### SHANXI 1987 ECONOMIC, SOCIAL DEVELOPMENT PLAN

HK080900 Taiyuan SHANXI RIBAO in Chinese 18 Mar 87 p 2

["Summary" of "Report on Shanxi's 1987 Economic and Social Development Plan (Draft) Delivered by Provincial Planning Commission Chairman Wu Junzhou [0702 0193 3166] at the Fifth Session of the Sixth Provincial People's Congress on 9 March 1987"—capitalized passages published in boldface]

[Text] On behalf of the provincial government, I submit a report on implementation of the 1986 plan and arrangements made for the 1987 plan to the current session for examination.

#### I. Implementation of the 1986 Plan

The year 1986 was the first year of the Seventh 5-Year Plan. During the year, the people of the whole province upheld the four cardinal principles, adhered to the policy of reform, opening up, and invigoration, and focused their attention on economic construction. In accordance with the targets of the Seventh 5-Year Plan adopted by the provincial people's congress and the 1986 national economic and social development plan, Shanxi stepped up construction of the bases for energy, heavy industry, and chemical industry and successfully fulfilled various production and construction tasks. The province's economy developed in a sustained, steady, and coordinated manner.

The total product of society in 1986 came to 43 billion yuan, 103 percent of the annual plan or a 5.4 percent increase over 1985. The total output value of industry (not including rural industry) amounted to 20.519 billion yuan, 100.5 percent of the annual plan or a 7.8 percent increase over the previous year. The total figure (including rural industry) amounted to 24.914 billion yuan, 100.6 percent of the annual plan or an increase of 8.3 percent over 1985. The total output value of agriculture was 5.051 billion yuan, 88.2 percent of the annual plan or a fall of 8.3 percent from 1985. National income came to 18 billion yuan, 100 percent of the annual plan or a 4.1 percent increase over the previous year. Revenue amounted to 2.864 billion yuan, 101.6 percent of the annual budget or a 7.3 percent increase over 1985 calculated in terms of comparable prices. With the sustained growth of the national economy, urban and rural markets were brisk, society remained stable and united, and the people's living standards further improved. The workers' average wage reached 1,266 yuan and the peasants' average per capita net income was 345 yuan.

Industrial and communications production increased steadily, overfulfilling the annual plan. Focused on attaining better economic results, the province overfulfilled the annual plan by stressing production management in enterprises and implementing the economic responsibility system, and realized the objective of "maintaining 7 percent and striving for an 8 percent increase." Marked results were achieved in readjusting the industrial product mix. Electricity, raw materials, and marketable products increased by a big margin. By applying the policy of "fixing production quotas according to the capacity of transport and marketing," the output of coal reached 220 million tons, a 3.6 percent increase over 1985. The province generated 22 billion kilowatt-hours of electricity, an increase of 18.9 percent over the previous year, and transferred 3.632 billion kilowatt-hours of electricity to other localities, an increase of 64.6 percent. Steel and rolled steel increased by 3.3 percent and 8 percent respectively over 1985. The growth of pig iron, ferroalloy, coke, cement, caustic soda, calcium carbide, chemical fertilizer, and other manufactured goods exceeded 12 percent. Light industry increased by 9.3 percent, higher than the rate for heavy industry. Remarkable successes were scored in transferring military industry to civilian use. The proportion rose from 31 percent in 1985 to 41.5 percent in 1986, and the variety of goods increased from 250 to 427.

The volume of goods handled by rail totaled 178.01 million tons, a 10.6 percent increase over 1985. A total of 152.1 million tons of coal was transported from Shanxi to other localities. Of this, the railroads handled 134.1 million tons, an increase of 10 percent over the previous year. The proportion of other goods transported by rail rose from 12.6 percent in 1985 to 13.6 percent, the highest rate in recent years.

The province accelerated the pace of agriculture and building of the poor mountain areas. In 1986, governments at all levels strengthened leadership over farm production. According to incomplete statistics, investment by provincial-, prefectural-, and county-level financial organizations in agriculture totaled 475.22 million yuan, 11.5 percent of financial expenditure. In 1986, the province newly developed 122,000 mu of irrigated land, restored and improved 1.31 million mu of irrigated land, transformed an area of 3.328 million mu in small valleys, improved 560,000 mu of saline-alkaline soil, and solved drinking water problems for 492,000 people and 88,000 head of large livestock in mountain areas. Wheat output reached a record 3.054 billion jin, 105 million jin more than in 1985. Owing to serious drought, however, output of autumn grain, cotton, and oil-bearing crops fell by a big margin. Total grain output was 7.324 billion jin, 900 million jin less than in 1985. The development of a diversified economy and township enterprises in various localities mitigated the effects of natural disasters on the rural economy. Total output value of township enterprises in 1986 was 9.3 billion yuan, an 8.4 percent rise over 1985. Regarding the efforts made to support poor mountain areas, 59 projects were arranged in 1986, involving investment of 50 million yuan. The number of projects totaled 170, including those arranged over the past 3 years. Most of these projects were completed and put into operation. Encouraging steps were taken in ending the backwardness of poor mountain areas.



The scope of investment in fixed assets was brought under control and sustained efforts were made to strengthen the construction of energy and communications projects. In 1986, investment in capital construction by state-owned units amounted to 5.3 billion yuan, up 4.5 percent on 1985. Of this sum, 3.87 billion yuan went into central projects, a 13.6 percent increase over 1985; and 1.43 billion yuan went into local projects, a drop of 14 percent. Investment in local projects totaled 944 million yuan, below the target of 964 million yuan prescribed by the state plan. Investment in local projects not covered by the state plan totaled 486 million yuan, 200 million yuan less than in 1985. To effectively put the scope of investment under control, measures were taken in the latter half of 1986 to examine the 786 projects under construction and to suspend the construction of 78 projects, cutting 254 million yuan from total investment.

In the key energy and communications construction projects, units under central jurisdiction had five pairs [dui 1417] of mines with capacity of 5.55 million tons and three coal washeries with a capacity of 5.4 million tons. Local units had 11 pairs of mines with a capacity of 2.03 million tons. Township units had 16 pairs of mines with a capacity of 1.87 million tons. Shanxi built six special railroads and five centers for collecting and distributing coal. In power construction, the province built the No 4 generating unit in Datong Second Power Plant, the No 7 generating unit in Shentou Power Plant, and the No 2 generating unit in Zhangze Power Plant, with a capacity of 550,000 kilowatts of generated power. Shanxi installed eight 35-kilovolt transmission lines with a total length of 200 km, and three 110-kilovolt transmission lines with a total length of 70 km. In communications construction, the second stage of the local Shenhe railway project, which extends 30.7 km from Sancha to Yingta, was completed and is expected to open to traffic soon. Construction of the Yangshe, Xiaoliu, and Wumo railroads started. The Daqin line project proceeded smoothly and construction of the five collection and distribution centers along the line was fully under way. In highway construction, three highways were built from Heshun to Dongping, Lingchuan to Wuxiu, and Liulin to Jundu. Of the other key construction projects, construction of the Shanxi Chemical Plant was near completion and the Xiaoyi Aluminum Mine of the Hejin Aluminum Base, the Shanxi Polyester Fiber Plant, the second phase project of Xinghuacun Brewery, the expansion of the Taiyuan Aluminum Plant, and the Changye Xinanquan water diversion project were completed and put into operation. Emphasis in technical transformation was put on the transformation of 58 large and medium-sized key enterprises.

The province increased exports, earned more foreign exchange, imported advanced technology, and made extensive use of foreign investment. The province fulfilled the annual quotas for exports and purchases of goods 40 days and 2 months respectively ahead of schedule, both reaching new records. Exports totaled \$302 million, a 33.2 percent increase over 1985. External transactions came to \$445 million, up 52 percent on the previous year. Among export commodities, there were 61 new varieties. In importing advanced technology and making use of foreign investment, 53 projects were put into operation, including the chemical fiber printing and dyeing production line of the Shanxi Printing and Dyeing Mill, the sulfur trioxide project of the

Yuncheng Detergent Plant, the twin-tub production line of the Changye Washing Machine Factory, the Taiyuan foodstuff packing production line, the wire rod mill of the Taiyuan Mining Machine Plant, and the production lines for discs and video tape cassettes in the electronics industry.

Urban and rural markets were brisk, prices remained stable, and people's living standards further improved. When an imbalance of commodity supply and purchasing power occurred in 1986, the province adopted measures to support local commodity production, searched for sources of goods inside and outside Shanxi, and used goods in stock rationally. As a result, there was an ample supply of major commodities and urban and rural markets were stable and flourishing. The province's 1986 retail sales reached 11.21 billion yuan, a 9.8 percent increase over 1985. The number of retail sales centers increased and the supply of vegetables, meat, and eggs was better than in the previous year. The retail price index rose 5.3 percent.

Based on the development of production, living standards further improved. In 1986, jobs were given to 94,000 people in urban areas. Wages for workers totaled 6.09 billion yuan, a 19.1 percent increase over 1985. Average annual per capita income for urban dwellers was 657.3 yuan and spending was 634.8 yuan, increases of 10.3 percent and 11.8 percent respectively over 1985 when price hikes are factored in. Owing to natural disasters, average annual net income of peasants was 345 yuan, 13 yuan less than the previous year's 358 yuan. Due to the efforts made to strengthen relief work, peasants' living standards remained stable. By the end of 1986, individual bank deposits amounted to 7.048 billion yuan, a 33.2 percent increase or 1.756 billion yuan more than at the beginning of the year. Of this total, urban deposits increased 38.7 percent, while rural deposits increased 26.1 percent. Housing for urban and rural dwellers improved. Houses completed in cities and towns in 1986 totaled 3.2 million square meters in floor space, those built by farmers in the countryside totaled 20.28 million square meters.

Further progress was made in education, science, technology, culture, public health, civil administration, sports, the press, and publication. Institutions of higher learning enrolled 13,517 students. Secondary schools enrolled 23,136 students, a 15.2 percent increase over 1985. In light of the program of training qualified personnel for mountain areas, universities and colleges enrolled 1,451 students from mountain areas, a 380 percent increase over 1985. Experiments of enrolling students but not giving placements were conducted in agricultural secondary schools, opening the way for qualified personnel to flow to rural areas. The province sent 65 students abroad to continue their studies. Last year, 23 scientific research results won technical progress prizes from the state, 297 won technical progress prizes from the province, 8 won national invention awards, and 1 won a national award in tackling key technical problems. A total of 111 projects concerning the "spark plan" were completed or partly completed. In public health, the province had an additional 3,000 hospital beds in 1986. Headway was also made in the press, culture, publication, radio, television, sports, civil administration, and social welfare undertakings.

To sum up, implementation of the 1986 plan was fairly good. However, there was an imbalance between social general demand and general supply and strains in finance, credit, materials, and foreign exchange. The following are typical problems in the implementation of the plan: Due to the weak foundation of agriculture, grain output dropped by a big margin in the drought year of 1986; the lack of adaptability and low technological and management level of enterprises led to the inferior quality of some products, high consumption of raw materials, and poor economic results; the deficits of some enterprises were not yet reduced; and there were large numbers of capital construction projects in progress, funds were scattered, and some units inappropriately built houses, halls, and clubs. Although the provincial authorities did a great deal of work and adopted a series of measures, it was difficult to put an end to the large scale of capital construction within a short period. In addition, the excessive growth of consumption funds outstripped the growth of national income and labor productivity. These problems have been taken into account and dealt with in drafting the plan for 1987.

## II. Arrangements for the 1987 Plan

The year 1987 is the second year of the Seventh 5-Year Plan. A leading comrade of the central authorities pointed out recently: "We should focus our attention on two major issues in 1987: One is to curtail the overheated economy so that the national economy as a whole will be based on a long-term, stable development; and the other is to continue to oppose bourgeois liberalization in the political and ideological spheres." He continued: "In economic work, our tasks in the new year include advocating the social general mood of plain living, hard struggle, building the country with industry and thrift, making more contributions, and strictly observing discipline in all trades and professions throughout the country; extensively carrying out the drive of increasing production and practicing economy and increasing income and reducing expenditure; and developing reform in depth with the focus on increasing the staying power of agriculture and invigorating enterprises, large and medium-sized enterprises in particular. Meanwhile, it is necessary to further readjust the major economic relations. With the common efforts of all the various quarters, we should bring our national economy onto the track of normal development."

In accordance with the instructions of the central authorities and in connection with the requirements of the State Planning Commission and Shanxi's Seventh 5-Year Plan, the guiding ideology for Shanxi's 1987 plan is to uphold the policy of reform, opening up, and invigoration, strengthen overall management over the economy, curtail excessive growth, bring the scope of investment in fixed assets under control, increase production and practice economy and increase income and reduce expenditure, attain better economic results in the production, construction and circulation fields, strive to maintain a balance of social general demand and general supply, and enable the province's economy to develop steadily.



The measures adopted in the plan dovetail with the Seventh 5-Year Plan and the stress of development is put on: Enhancing the foundation of agriculture, vigorously developing grain production, and accelerating the construction of mountain areas; building energy bases well, increasing the staying power of coal production, and promoting coal processing; accelerating the building of communications projects; making a success of the technical transformation of 58 large and medium-sized key enterprises; and speeding up the development of education, science, and technology and doing a good job of environmental protection.

In light of the above requirements, the major targets of the 1987 draft plan include: The total product of society should reach 46.45 billion yuan, an increase of 8 percent. The total output value of industry should reach 26.75 billion yuan, an increase of 7.4 percent. This figure should be 21.95 billion yuan, a 7-percent increase, if the output of rural industry is not included. The total output value of agriculture should reach 5.65 billion yuan, an increase of 11.9 percent. The output of major industrial and agricultural products should be: Grain, 8 billion kg; cotton, 90 million kg; coal, 212 million tons (149.6 million tons to be transported by railroad to other localities); electricity, 23.35 billion kilowatt-hours; and steel, 2 million tons. National income should total 14.45 billion yuan, an increase of 8.1 percent. Retail sales should amount to 12.56 billion yuan, a 12 percent increase. Exports should reach \$313 million, a 3.6 percent increase. The average annual per capita wages for workers of state-owned units should be 1,350 yuan, a 3.5 percent increase after factoring in price hikes. The average annual per capita net income of peasants should reach 370 yuan, a 7.2 percent increase. Institutions of higher learning should enroll 14,066 students, an increase of 11.9 percent.

According to the quotas assigned by the state of Shanxi in 1987, investment of 908 million yuan should be channeled into capital construction of state-owned units, 135 million yuan should be used for energy and communications projects built jointly with central organizations, and 1.051 billion yuan should be invested in technical transformation. At a recent meeting of governors, the state assigned the following quotas to Shanxi: Subscription of 186 million yuan of bonds for key construction projects and curtailing expenditure by 290 million yuan (including 120 million yuan in capital construction). For this reason, investment in capital construction should be kept within these quotas.

To successfully complete the tasks for 1987, it is necessary to pay attention to the following:

1. VIGOROUSLY DEVELOP GRAIN PRODUCTION AND PUT AN END TO THE BACKWARDNESS OF THE POOR MOUNTAIN AREAS AS QUICKLY AS POSSIBLE.

Agriculture is the foundation of the national economy and grain is the foundation of this foundation. The development of grain production is related to whether we can consolidate and develop the favorable situation characterized by stability and unity. Therefore, it is necessary to continue to implement

the policy of "never slackening efforts in grain production and vigorously developing a diversified economy," carry out the relevant policies of the central authorities in earnest, arouse the enthusiasm of the peasants for growing grain, and strive to increase the output of grain to 8 billion kg again. According to the quotas assigned by the provincial planning commission, 74 million yuan will be invested in capital construction on farmland, forestry, and water conservancy works, an increase of 14.7 percent over 1986. To ensure that grain output will increase by a big margin, it is necessary to create conditions to increase the staying power of agriculture. The following measures should be adopted:

First, attention should be given to the construction of the 21 million mu of high-yield farmland and the 18 commodity grain base counties throughout the province. It is necessary to reconstruct and restore the existing water conservancy works. The provincial government has decided to allocate a special fund totaling 10 million yuan to reconstruct and transform the existing water conservancy facilities. The emphasis of this year's water conservancy construction will be put on the project to raise the water level of the Zuncun electric pumping station, the Hejin Yumenkou water conservancy project, and the preparatory work for diverting water from the Huang He to Shanxi, diverting water from the Qin He to the Fen He, and starting the construction of the Shijiazhuang Reservoir.

Second, expand the coverage of plastic sheeting to increase grain output. The province plans to cover an area of 2.5 million mu with plastic sheeting, comprising 1.5 million mu of paddy field and 1 million mu of cash crops. To encourage and spread the practice of covering paddy fields with plastic sheeting, the province has decided to give a subsidy of 3 yuan per mu.

Third, exploit and make use of saline-alkaline land to increase land resources. This is a strategic measure for increasing the staying power of agriculture during the Seventh 5-Year Plan. An area of 500,000 mu of saline-alkaline land should be improved in Huibei and Yizhou Prefectures. While improving the saline-alkaline land, it is necessary to pay attention to the transformation of low-yield land and to strictly control occupation of farmland for non-agricultural purposes.

Fourth, make further efforts to spread agricultural science and technology and ensure the supply of means of production for farming. The focus of agricultural science and technology should be put on scientific application of fertilizers and development of good strains. It is necessary to accelerate the building and restoration of the bases of improved varieties of rice. We must continue to strengthen the agrotechnical service system and gradually perfect the organs for popularizing and applying agrotechniques at the county and township levels. We must make every effort to ensure the supply of chemical fertilizer, plastic sheeting, diesel oil, and pesticide badly needed for farm production. The output of chemical fertilizer this year should be 563,000 tons (based on 100 percent purity), an increase of 26.9 percent over 1985.

In putting an end to the backwardness of the poverty-stricken areas, we should first concentrate our efforts to solve the problem of food and clothing for the peasants with a per capita income of under 150 yuan. Although the state will adequately support the poverty-stricken areas, the peasants should mainly rely on their own efforts to increase income.

2. BRING THE SCOPE OF INVESTMENT IN FIXED ASSETS UNDER CONTROL AND RESOLUTELY IMPLEMENT THE POLICY OF "THREE ENSURES AND THREE CURTAILS."

The capital construction principle for 1987 is to ensure the key projects prescribed in the Seventh 5-Year Plan. It is necessary to resolutely implement the policy of "three ensures and three curtails," that is, to ensure the projects covered in the plan and curtail the projects not included in the plan, ensure the productive projects and curtail the nonproductive projects, and ensure the key construction projects and curtail the ordinary ones. Instead of developing new projects, we should focus our attention on ensuring the projects that can produce better results and be completed and put into operation within the year. We must continue to examine the projects under construction and halt those which cannot produce better results and which are not provided with the conditions for construction. We must curtail the scope of the nonproductive projects, including buildings, centers, and halls. Meanwhile, we must not allow the projects under construction to exceed the budgetary estimate.

In light of the above principles, the targets for investment in capital construction in 1987 are as follows: The province will make a total investment of 794 million yuan, including 151.68 million yuan allocated to prefectures and cities. Of this total, 575.64 million yuan will be invested in productive projects, accounting for 72.5 percent; and 218.36 million yuan in nonproductive projects, accounting for 27.5 percent. Of the 406 projects included in the plan, 17 are large and medium-sized projects and 180 are to be completed and put into operation within the year.

In 1987, investment by the state in Shanxi's key construction projects will increase by a big margin. The 29 large and medium-sized projects that are under construction and near completion involve a total investment of over 3.6 billion yuan.

This year's capital construction should be focused on putting into operation the completed projects. The key construction projects of the state to be put into operation include: The Pingsu opencut mine, with a capacity of 7 million tons of coal, the new Datong power plant and the Suxian Shentou power plant, each with a new 200,000-kilowatt-hour generating unit, the Yongji power plant, with a new 50,000-kilowatt-hour generating unit, the Taiyuan-Fenglingdu double track railroad, with a transportation capacity of 1 million tons of goods, double tracking and electrification of the Taiyuan-Datong railroad, with a transportation capacity of 1.5 million tons of goods, Shanxi Aluminum Plant, and Shanxi Chemical Fertilizer Factory. Local projects to be put into operation include: The steel-smelting project of Linxian steel plant, Yongji printing and dyeing mill, Yingxian refinery, Suxian brewery, Hunyuan woolen mill, Yizhou tungsten factory, Linfen and Hongdong coal washeries, and a number of thermal power stations in Yangcheng, Zuoquan, and other localities. Regarding these key construction projects of the state and province, we should make every effort to put them into operation and turn out results as early as possible.



Investment earmarked for this year's technical transformation is 1.051 billion yuan. Of the 58 key enterprises, the stress in investment will be put on the 38 key enterprises that have already started and the imported projects that have become effective upon signature. According to the plan, 100 million yuan will be invested in technical transformation of agricultural departments, 25 million yuan in commercial departments, and 140 million yuan in urban areas.

### 3. CONTINUE TO STRENGTHEN THE ENERGY AND COMMUNICATIONS PROJECTS AND SPEED UP THE DEVELOPMENT OF THE RAW AND SEMIFINISHED MATERIALS INDUSTRY.

It should be a priority of Shanxi's industrial development and the needs of the nation's economic construction to strengthen the energy and communications projects. Although the demand for coal has eased somewhat in the domestic market, from a long-term point of view there will still be a strain in demand for coal. In accordance with the instructions of the State Council Shanxi should further strengthen leadership over the township coal industry, make overall plans, proceed in a coordinated way, do supervision and service work well, lay equal stress on exploitation and protection, as well as lifting restrictions and exercising proper management, rationally exploit and make use of coal resources, pay close attention to safe production, and promote the healthy development of Shanxi's coal industry. In 1987, on the one hand, we should continue to fix production quotas according to the capacity of transport and marketing and resolutely control the output of coal. On the other hand, we should pay attention to technical transformation of the existing mines, increase the staying power of mining, and lay a solid foundation to meet the need for coal in the years to come. According to the plan, 91 pairs of local and township mines will be built and 33 pairs will be completed and put into operation, adding a production capacity of 4.4 million tons. Another three local coal washeries with a capacity of 1.8 million tons will be built. A total of eight coal collection, loading, and transportation centers will be set up in Luoliwan, Shangshenjian, Suxian's Liujiakou, Zuoyun Queershan, Huairan Nanyao, Pingnu Muguajie, Ningwu, and Yangfang which are linked with the Daqin Railroad. The projects involving coal processing include coal screening, coal washing, coking, and calcium carbide. According to the plan, coal washing output should reach 13.67 million tons; machine-made coke, 2.28 million tons; and calcium carbide, 205,000 tons.

In the power industry, we should ensure the completion of construction of the new Datong power plant, Shentou power plant, and Yongji power plant, with a generating capacity of 450,000 kilowatt-hours of electricity. According to the plan, construction of local power plants, including Zuoquan power plant, Yangcheng power plant, Jincheng Shuanluquan hydropower station, and Pingshun Chibi hydropower station will continue. We should build the 500,000-volt power transmission and transforming project extending from Shentou to Taiyuan. We should basically complete construction of the power transmission lines from Linfen to Xiangning, Zaolin to Fanzhi, Huoxian to Xinfeng, and Zhangze to Huoxian. We should newly set up the power transmission lines extending from Huoxian to Shilipu, Changye to Changcun, and Xinfeng to Hejin and newly build transformer stations in Shanyin, Huangzai, and Muzai. The province's small thermal power plants will have an increased capacity of 16,000 kilowatt-hours of generated power, 66.7 li of transmission lines, and 15,800 kilovolts of transforming capacity. The province plans to allocate 4.5 billion kilowatt-hours of electricity to other localities, a 23.9 percent increase over 1986. To ease the strain on power supplies within the province, it is necessary to use electricity sparingly and in a planned manner.

The stress in communications buildings will be put on laying 24.9 km of track from Pingding to Xiyang, a section of the Yangshe Railroad, and laying 28.9 km of track from Xiaoxi to Xiaojing, a section of the Xiaoliu Railroad. The construction of the first phase of the Wumo Railroad and the third phase of the Shenhe Railroad will start immediately we receive investment from the state. [sentence as printed] Preparations will be made for the Qinqin Railroad. The construction of 10 highways extending from Shanxi to other localities should be completed within this year. We must start construction of the main highways extending from Datong to Yuncheng and Taiyuan to Jinchi, the Qinhuangdao wharf, and the Taiyuan telecommunications key project in an all-round way.

The focus of the raw and semifinished materials industry should be accelerating the development of the steel industry. As the state has reduced the scope of central allocation of materials, the production and supply of rolled steel will constitute a major problem. The plan makes arrangements for the steel-smelting and accessories project of Linxian Steel Plant, the 300-cubic-meter furnace and rolling workshop of Changzi Steel Plant, the aluminum plate project of Taiyuan copper plant, Taiyuan aluminum plant, and Jiezhou smelter, which can increase production capacity by 5,000 tons of electrolytic aluminum. Specific arrangements have also been made for the raw, semifinished, and chemical materials that are in short supply.

We must make the most of Shanxi's ordnance enterprises. While working out plans, we should, based on the plans of different trades, take the factors of both ordnance and civilian enterprises into account and make overall arrangements. Regarding the production items that can be undertaken by ordnance enterprises, no expansion or new construction will be carried out for similar items in civilian enterprises.

#### 4. VIGOROUSLY DEVELOP THE LIGHT AND TEXTILE INDUSTRIES AND PROMOTE THE URBAN AND RURAL MARKETS.

The contradiction between social purchasing power and supply of commodities is still an outstanding question this year. According to preliminary estimates, the province's purchasing power will be 14 billion yuan and commodity supply will reach 12.8 billion yuan, a gap of 1.2 billion yuan. Regarding the sources of commodities, there is a serious shortage of high class, famous-brand, quality commodities. To maintain the stability and prosperity of the province's market, it is necessary to accelerate the development of the light and textile industries and increase the output of marketable light and textile products that are in short supply. According to the plan, the output value of light industry will increase by 7.5 percent, higher than the growth of heavy industry. The output of famous-brand quality products, such as Fen liquor, woolen and silk fabrics, beer, and twin-tub washing machines will increase by a big margin, while production of unmarketable goods that are overstocked will be curtailed. To ensure the supply of light industrial commodities, the province will allocate a special fund totaling 20 million yuan to develop foodstuffs, garments, and other sought-after commodities. We must strengthen cooperation between industry and commerce and between Shanxi and other provinces

and use our quality products in exchange with other provinces for the goods we badly need. It is necessary to develop various forms of commerce and tertiary industry, provide rural areas with manufactured goods, and promote exchange of materials between urban and rural areas.

We must continue to maintain stable prices this year and keep general price increases within 5 percent.

**5. INCREASE EXPORTS, EARN MORE FOREIGN EXCHANGE, MAKE GOOD USE OF FOREIGN INVESTMENT, AND IMPORT ADVANCED TECHNOLOGY.**

In accordance with the state's reform of the foreign exchange management system, a number of commodities formerly imported by the central authorities will this year be imported by the province with its own foreign exchange. For this reason, it will be rather difficult for Shanxi to maintain a foreign exchange balance. It is necessary to continue to implement the policy of opening up to the outside world. All localities and departments should improve the quality of their export goods, increase the number of varieties, and earn more foreign exchange through exports. We must stress the sparing use of foreign exchange and strictly control foreign exchange expenditure. We must step up construction of the export commodity bases, improve operation and management, and reduce the gaining foreign exchange. We must expand economic, technological, and labor service exchanges with other countries, vigorously develop tourism, and earn more foreign exchange from nontrade channels.

In making use of foreign investment and importing advanced technology this year, we must continue to emancipate our minds, improve the investment environment, increase our pace, and focus our attention on absorbing direct foreign investment. According to the plan, five projects will involve the use of foreign investment. We will import 6 advanced technological projects and construct 23 projects for other countries. To avoid the practice of blindly duplicating imports, it is necessary to do a good job of collecting and making careful analysis of domestic and international information.

**6. STRENGTHEN TOWNSHIP ENTERPRISES AND VIGOROUSLY DEVELOP THE SOCIALIST COLLECTIVE AND PRIVATE ECONOMIES IN URBAN AND RURAL AREAS.**

Township enterprises have become the mainstay of Shanxi's rural economy and the main source of prefectural and county revenue. They have played a positive role in extricating the vast numbers of peasants from poverty and increasing their income. In 1987, the total output value of township enterprises should reach 13.05 billion yuan, a 12-percent increase over 1986. We must continue to implement the policy of "offering vigorous support, working out reasonable plans, giving correct guidance, and strengthening management" formulated by the central authorities and the policy of "vigorously exploiting resources, persevering in opening up to the outside world, doing reform well and earnestly, and strengthening technical transformation" put forward by the provincial CPC committee and government, further develop reform

On top, perfect the contracted responsibility system, gradually separate government administration from enterprise management, extensively develop economic and technological coordination, and invigorate enterprises. On the basis of making the most of natural resources and developing production of raw materials, we must increase value by developing the processing industry at various levels and strive to attain new heights in scope, production technology, and economic results. According to the plan, attention should be given to the technical transformation of a number of township enterprises, coal washeries, coking plants, and ironworks and to the processing of meat, fruit, and farm and sideline products.

It is an important task of Shanxi's economic reform to develop the socialist collective and private economies in urban and rural areas. We must further relax policies, strengthen macroscopic guidance of the state plan, encourage the development of collective enterprises, township enterprises, and the private economy, and give them support in planning, taxation, credit, and industrial and commercial management. In the distribution of resources, investment in introducing advanced technology, and information and consultation, we should offer more services to collective enterprises and the private economic sector. State enterprises should establish lateral ties with the collective and private economic sectors and carry out coordination among specialized departments.

#### 7. STRENGTHEN MACROSCOPIC MANAGEMENT OF PLANNING AND MAINTAIN OVERALL BALANCE.

Regarding Shanxi's 1987 economic and social development plan, we must earnestly strengthen macroscopic management, strive to maintain overall balance of social general demand and general supply, focus our attention on increasing and improving social supply, establish an appropriate proportional relationship between accumulation and consumption, and maintain overall balance.

There are many factors related to the reduction of revenue and increased expenditure this year. In addition, there is a shortage of funds. It is necessary to energetically carry out the drive of increasing production and practicing economy and increasing income and reducing expenditure; advocate the spirit of plain living and hard struggle, and building the country with industry and thrift; oppose extravagance; and save on expenditure. The stress of industrial and communications production should be put on attaining better economic results.

As the state's reform of the materials distribution system is now under way, the materials distributed through central allocation will be markedly reduced. For this reason, there will still be a shortage of materials such as rolled steel, cement, timber, raw materials for the chemical, light, and textile industries, and nonferrous metals. When distributing materials, we should first ensure the mandatory production plans and the needs of key construction projects. Meanwhile, we should also seek sources of materials. As the state no longer requests delivery of scrap steel and iron, Shanxi's scrap steel and iron, except for the amount used by enterprises, will be retrieved by the provincial metals collection company and the supply and marketing organizations. With a stock of 600,000 tons of rolled steel, the province plans to establish



iron and steel markets in Taiyuan, Datong, Changye, and Yangquan. After fulfilling the planned quotas, the surplus rolled steel produced by the iron and steel companies in Taiyuan and Changye will be marketed within the province.

8. DO A GOOD JOB OF ENVIRONMENTAL PROTECTION AND CONSTRUCTION OF URBAN BASIC FACILITIES AND FURTHER DEVELOP SCIENCE, EDUCATION, AND CULTURE.

Regarding this year's environmental protection, apart from the investment made by the provincial planning and economic commissions, the provincial government will allocate a special fund totaling 10 million yuan to tackle pollution of Taiyuan iron and steel company and the Hexi chemical industrial area. According to the plan, urban construction projects to be carried out this year include the second phases of gas projects in Datong and Taiyuan, water diversion projects in Linfen and Changye, and water supply projects in small towns.

According to the 1987 plan, institutions of higher learning will enroll 14,066 students, an increase of 8.8 percent over 1986. Secondary schools will enroll 24,544 students, a 6.1 percent increase over 1986. We will duly increase the number of nonresident students, continue to enroll more students who will return to their former units after graduation, and try out the system of enrolling students but not giving placements in some schools. It is necessary to continue to readjust the distribution and specialties of institutions of higher learning and secondary schools. We will strengthen the building of normal schools to train more qualified teachers for the popularizing of 9-year compulsory education. We will strengthen the building of key secondary schools and schools in mountain areas, create conditions for running schools, and improve the quality of teaching. In 1987, the province will send 100-120 students abroad to continue their studies.

The focus of scientific and technological work in 1987 should be on the technical transformation of existing enterprises and implementation of the "spark plan." The province will tackle technical problems in 12 fields and conduct research in 96 items and 180 subjects, of which 111 are new.

Headway will be made in culture, public health, and sports. In 1987, the province will have an additional 2,900 hospital beds and 3,500 public health workers, increases of 3.5 percent and 2.6 percent respectively over 1986. The province will set up a station for relaying programs of the second central television station, two medium wave relay stations, and eight (satellite) ground receiving stations to enrich the people's cultural lives. It is necessary to strengthen civil administration undertakings and gradually establish a socialist insurance system. We will enhance family planning work and strictly control the growth of population.



Delegates, the current situation is excellent. The reform is developing in depth and the drive to increase production and practice economy and increase income and reduce expenditure is now under way. Although there are numerous difficulties ahead, we will certainly be able to fulfill and overfulfill the 1987 national economic and social development plan so long as we resolutely implement the policies and principles of the CPC Central Committee, adopt forceful measures, fully mobilize the broad ranks of cadres and masses, and conduct work in a down-to-earth manner.

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[Article by Li Jinyan [2621 6855 5333] and Ye Sen [0673 2773]: "A Discussion of Taxation of Foreign Investment"]

[Text] From 1980 onward, China has promulgated a series of tax laws which affect foreigners in response to the needs of opening up to the outside and using foreign investment. These laws have attracted widespread interest among foreign tax specialists, industrialists, businessmen, and attorneys. This article is a research report by the author which explores issues in China's tax laws. It reflects the views of a number of foreign tax experts and will serve, it is hoped, as a reference for an understanding of current tax laws which affect foreigners.

For foreign enterprises considering coming to China to invest, the issue of tax payments is an element not to be overlooked. Before the last decision is made to invest in China, they must consider what after-tax profits will be, how much profit they will be able to repatriate, what tax payments already made will be recognized by the home government, and whether or not they can reduce their taxes or get exemptions. Therefore, these firms are more and more looking to Chinese attorneys and tax officials for information and assistance concerning potential taxes on investors.

Selection of the appropriate form of investment is a key point for any investor, since different forms of investment are covered by different laws. Many factors can influence this selection, of which taxation is one. But it is the quality of the overall investment climate which is paramount. One way or another, investors are bound to look at their before-tax profits before examining the tax issue.

At the present time, foreign firms and individuals looking to invest in China have the following three choices they can make: (1) They can go into production with a Chinese party in a cooperative venture. Given that the Chinese government tends to prefer that foreign businesses use this mode of investment in China, in normal circumstances, as long as an appropriate Chinese "partner" can be found and the requisite approvals secured, an equity or contractual joint venture setup is close to ideal. (2) Establish a branch

organization or representative to engage in independent operations. (3) Establish a subsidiary. Prior to 1986, the first two modes were the major ones. After the promulgation of the "Foreign Enterprise Law of the People's Republic of China", foreign firms could also set up subsidiaries on Chinese soil--that is, "foreign investment enterprises" entirely funded by a foreign business and set up in accordance with the relevant Chinese laws.

This article will discuss the Chinese tax implications which arise from each of these modes of foreign investment, focusing on the "Income Tax Law for Chinese-Foreign Equity Joint Venture Enterprises" and the "Income Tax Law for Foreign Enterprises."

## I. Equity Joint Ventures

An equity joint venture formed according to the "Enterprise Law for Chinese-Foreign Equity Joint Ventures" is a Chinese legal person which shall pay corporate income taxes on its entire income (including income both on Chinese soil and wherever branch organizations are located) with the joint venture as a unit, pursuant to the "Income Tax Law for Chinese-Foreign Equity Joint Ventures."

### Amount of Income Tax

The object of tax levies of the equity joint venture income tax is the venture's income from production, operations, and other sources. "Production and operational income" refers to "production and operational income from manufacturing, mining, communication and transport, agricultural, forestry, animal husbandry, fishing, livestock, commercial, tourist, and food and beverage services and other related activities." "Other income" refers to "stock dividends, profits, interest income, income from assets rented or assigned, patent rights, proprietary technology, trademark rights, and copyrights. Obviously, capital gains often seen in the corporate laws of the West are not spelled out in this list, but certain capital earnings may be incorporated in income from the assignment of assets.

The "Income Tax Law for Equity Joint Ventures" defines "recognized gain" as "total income of the equity joint venture for each tax year, reduced by costs, expenses, and losses." Section 8 of the "Implementing Regulations" of the law sets forth in detail the formula for calculating what income is to be recognized for tax purposes from industry, commerce, services, and other sectors. When the joint venture enterprise is calculating recognized gain, it may deduct appropriate operating expenses, excluding those specifically prohibited by the "regulations." Those items not permitted to be deducted are as follows:

1. Capital expenditures and expenditures by the joint venture enterprise for the purchase of such fixed assets as machinery and equipment and plant facilities may not be deducted; however, they may be depreciated on a yearly basis.

2. Expenditures for the purchase of intangible assets. Funds used by the joint venture enterprise to purchase patents, proprietary technology, trademark or copyrights, land use rights, or other royalties may not be deducted as operating expenses, and may only be amortized based upon actual outlays.

3. Interest on capital. The "implementing regulations" do not define "interest on capital." We may construe it as the interest paid on loans to the enterprise after the enterprise has begun normal operations, which may be deducted. Even though that which is for loans used to acquire fixed assets is not permitted to be deducted, this item of interest expense can still be included in the cost of the asset and taken as an expense of the enterprise when calculating depreciation.

4. The income tax and the local income tax. What is it that the term here "income tax" refers to? Income tax on a jointly operated enterprise? Tax on industrial or commercial income? Or income tax on something else? If it is the income tax payment which a joint venture enterprise must tender every quarter, then these prohibitions would be terribly difficult to make sense out of. Because an estimated tax is nothing but a payment of income tax on a quarterly basis in advance by a joint venture, the enterprise cannot on the one hand pay the tax and on the other deduct the tax from its income. That goes without saying. If it refers to the industrial and commercial income tax, the 1950 "Provisional Code for an Industrial and Commercial Tax" includes both an enterprise tax and an income tax; nevertheless, that code is inapplicable where other tax laws are in effect. We possibly understand the "income tax payment" to refer to the individual income taxes or withholding taxes which the company designated is obliged to withhold on wages or dividends.

5. Penalties. Penalties for a joint ventures illegal operations, losses from confiscated properties, and fines and penalties for late payments may not be listed as expenses.

6. Compensated losses. Losses which an enterprise incurs due to various natural disasters, and which may be compensated for by insurance may not be listed as expenses.

7. Voluntary contributions other than those of a public welfare or relief character.

8. Professional entertainment and social activity expenses. Only those entertainment and social activity expenses which relate to the firm's production or operations may be listed as an expense, but in any case may not exceed .003 of the total annual sales in the tax year or .01 of total business income.

9. Losses. Losses incurred by a joint venture enterprise during the tax year which cannot be made up within five years may not be deducted from slated income taxes after the period has passed.

## Tax rates

The joint venture income tax uses a 30 percent fixed proportional tax rate. Added to that is a surtax of 10 percent for local income tax, for a combined tax rate of 33 percent. In certain circumstances, the people's government in the place where the enterprise is located (or the location of the headquarters where there are several branches to an enterprise) may reduce the local tax or drop it altogether.

In addition to the above-mentioned tax rate, a foreign investor must pay an accrued [7315 2251] income tax assessed at 10 percent of any profits of the enterprise at the time of their repatriation. "Profit" is generally construed as the dividends of the foreign equity partner. The term "profit" as used here, being "profit" may possibly not include interest or capital income given to the foreign equity partner. The 10 percent accrued tax rate is lower than the 20 percent proportional rate assessed on investment income under the "individual income tax law" or the "foreign enterprise income tax law." Of course, As soon as agreements on tax collections between China and other countries go into effect, the relationship between these two tax rates becomes attenuated, since these agreements generally set the accrued payment rate at between 10 and 15 percent.

Pursuant to section 6 of the "Income Tax Law for Chinese-Foreign Equity Joint Ventures", partners to the venture who reinvest their profits in China (for at least five years) can get a refund on taxes paid on up to 40 percent of those profits once they have received approval. If the foreign equity partner wants to repatriate those profits, and deposits them in a foreign branch of a Chinese bank (and not in a foreign bank or in a circulating trade fund), with the intent of using them shortly thereafter to invest in a Chinese joint venture, can this investment be treated as a reinvestment? If so, can he get a refund on the 10 percent prepaid before the profits were repatriated? The tax law is not clear on this.

## Tax abatement

The refund on 40 percent of tax payments for reinvestment is one form of preferential tax treatment which China gives to the joint venture. Others include: abatement or exemption of local income tax; an income tax rate lowered to 15 percent on joint ventures opened in special economic zones or economic technology exploitation zones; exemption of taxation for new joint ventures for the first two years and reduction during years three to five where the venture period is above 10 years; further reductions of between 15 and 30 percent of tax assessments in the period subsequent to the above-mentioned abatement period on joint ventures in such low profit sectors as agriculture and forestry and those conducted in economically disadvantaged or remote areas. In addition, joint ventures with advanced technology may receive special preferences in the form of tax exemptions or abatements where the venture's superior organ submits an application which is examined by the relevant department. Some provinces and regions (such as Liaoning) have also offered tax preferences to attract foreign businesses to invest in those areas.



## II. Company division and company "presence [2623 2845]"

Besides forming equity joint ventures in China as a mode of investment, foreign businesses can also establish divisions or set up a presence to engage in independent operations or cooperative production with Chinese businesses. These foreign businesses must pay income taxes on their income for production and operations within China and other income pursuant to the "Foreign Enterprise Income Tax Law." Contractual joint ventures differ from equity joint ventures in that they are not independent entities with a duty to pay taxes. The foreign business in the contractual joint venture need only pay the foreign enterprise income tax in its own portion of profits; the enterprise itself pays no taxes.

### Foreign businesses.

Sections one and 11 of the "Foreign Enterprise Income Tax Law" stipulate that a "foreign enterprise" refers to "a presence established within the PRC, engaged in independent business or joint production and joint operations with a Chinese enterprise" and foreign companies, enterprises, and other economic organizations which "have no established presence within Chinese territory but have income originating in China through dividends, interest, rents, royalty fees, or other sources." Thus, for tax purposes, not just foreign corporations and enterprises, but foreign partner organizations and limited liability partnership enterprises, (also called the two partnership companies), trust companies, and various kinds of hybrid companies are also considered foreign enterprises as well. However, do foreign individuals qualify as "foreign enterprises" when they engage in business activities within China? Do they pay individual income taxes on unified income? Based upon various explanations by the Finance Ministry, income from production and operations by foreign persons engaged in individual industry and commerce should be assessed in accordance with the "Foreign Enterprise Income Tax Law" and deemed to be "foreign enterprises."

### Presence

One key issue is ascertaining when a foreign enterprise is setting up a presence in China, whether that presence effects the foreign enterprise in its use of the progressive or the proportional tax. Section two of the "Implementing Regulations of the Foreign Enterprise Income Tax" sets forth that an "established presence" means "a presence, location, or business representative of a foreign enterprise engaged in production or business within Chinese territory." In this, "presence and location" include a management presence, branch presence, representative presence, and locations of factories or for exploitation of natural resources, and sites of other projects such as those assigned for buildings, facilities, installations, and prospecting.

The scope of this definition is very broad; but in fact, the explanations China has given thus far regarding it are not what they would seem. For example, if a foreign corporation is assigned to a building, exploitation of oil or other mining of natural resources within China, China, of course, deems it to be a presence established in China. If a foreign corporation holds an

exhibition in China and thereafter sells the displayed samples and floor models to a Chinese enterprise, that corporation will not be deemed to have an established presence in China. Likewise, foreign corporations which engage in compensation trade with a Chinese enterprise are not to be deemed ones with an established presence in China.

But as far as how China decides when foreign enterprises have established a business agent or representative in China, the rules are unclear. When deciding whether an agent is an "presence" of a foreign enterprise, two factors are generally taken into account: is the agent working for a single principal or several, and does the agent have the right to represent the principal in entering a contract. If the agent is working for a single principal and also is empowered to join the principal in a binding contract, that agent would be deemed a "presence" of the principal in China. If the agent is empowered to represent two or more principles in entering a contract, and especially if those principals were to be associated enterprises, whether the agent would be deemed a presence of these principals within China is not entirely clear. If China were to hold this agent by itself to be an independently operated enterprise, this would be beneficial to China, since it could assess a progressive tax on all the fees collected by that agent from all principals. The situation for taxing of representative organizations in permanent residence has become somewhat clearer since the promulgation of the "Provisional Regulations on Collection of the Unified Industrial and Commercial Tax and Enterprise Income Tax for Organizations Representing Foreign Enterprises in China" in 1985. In fact, if the activities of these representative organizations consist of nothing more than assessing the Chinese market for the main enterprise and providing it with materials on the commercial situation, and does not form a unit with the main enterprises organizations within China, then the main enterprise cannot be held to be a "foreign enterprise" for purposes of the tax law. If the representative organization carries out business activities on a broader scale and accepts income in the form of commissions, rebates, and processing expenses, then the main enterprise should pay the foreign enterprise income tax on its income.

#### Tax assessments

According to the rules of the "Foreign Enterprise Income Tax Law", the amount of income recognized for an organization set up in China of a foreign enterprise shall be the total remainder of income of the foreign enterprise during the tax year after it has been reduced by costs, expenses, and losses. The "Implementing Regulations" of this law provide a formula for calculating the amount recognized from industry, commerce, services, and other sectors. They also permit the foreign enterprise to reduce it by appropriate costs and fees, including reasonable interest outlays and management expenses; however, use fees for special rights granted to the main enterprise and outlays not relating to production or operational activities may not be deducted.

If a foreign enterprise is unable to provide accurate documentation of costs and expenses, the amount recognized cannot be calculated accurately, and the revenue organ in the locality has the right to calculate the amount recognized according to total income from net sales and set profits at levels equivalent to that found in identical or similar industries. This method seems even more

favorable to the foreign enterprise, since profit margins in the rest of the industry may not be as high as its own, and it can second-guess the revenue agency on the severity of its tax burden in the course of negotiations with it. Where a permanent resident representative presence is unable to provide accurate written verifications or genuine reports on its commission income, the local tax agency may set its recognized gain at an introductory knocked down rate [?] of 15 percent based upon prevalent commission levels.

#### Tax rates

The foreign enterprise income tax employs an excess progressive tax rate running from 20 to 40 percent, and a proportional tax rate of 10 percent, being the local income tax independently computed and assessed [6060 1767] on recognized gain. The rate on the local tax is higher for foreign enterprises than it is for joint ventures since the latter 10 percent of the income tax to be paid, not 10 percent of the amount to be taxed. Thus, the tax rate for foreign enterprises runs between 30 and 50 percent. For this reason, excluding joint ventures with small-scale operations, the tax rates for joint ventures are lower. Of course, joint venture partners must still prepay a 10 percent tax on profits slated for repatriation while after-tax profits of foreign enterprises are not further taxed upon repatriation. Just like joint ventures, foreign enterprises which have established organs in special economic zones and economic technology exploitation zones use the 15 percent tax rate.

Foreign enterprises with no organs established within China but which have sources of investment income (such as dividends, interest, rents, and use rights for special privileges) pay tax at a rate of 20 percent, which is actually an accrued income tax.

#### Tax abatements and exemptions.

Other than the preferences afforded within special economic and economic technology exploitation zones, foreign enterprises may be granted exemption or abatement on local surtaxes by the local people's government. Foreign enterprises in such low-margin sectors as farming, forestry, and animal husbandry which have an operational life of over 10 years may, upon application by the enterprise and approval by a revenue agency, be exempt from income taxes in the first year it makes a profit and have its income taxes reduced by half in the second and third years. Once the periods of exemption or abatement mentioned above have passed, these enterprises can continue to see a reduction of income taxes of between 15 and 30 percent for the succeeding 10 years, upon approval by the Ministry of Finance.

What is noteworthy is that these tax preferences are not as broad as those for joint ventures, and a divisional organization or "organ"—even one engaged in cooperative production and operation with a Chinese firm—will have a difficult time in satisfying requirements beyond the 10 year period.

Section 10 of the "Foreign Enterprise Income Tax Law" contains special preferences in the form of abatements and exemptions for certain interest income. For example, interest income going to international monetary



organizations which loan money to the Chinese government or to Chinese national banks and interest income to foreign banks which loan money to Chinese national banks at preferred rates are exempt from income taxes. The "Provisional Regulations Concerning Exemption and Abatement of Income Tax on Interest Income of Foreign Businesses in China" announced by the Finance Ministry in 1983 further expanded the scope of preferences on tax assessments for foreign enterprises. The interest earned by foreign businesses during the 1983-85 period on loans made pursuant to loan and trade agreements signed with Chinese corporations and enterprises, advances and extended payment plans had tax assessments reduced by 10 percent during the life of the agreements. Now this tax abatement period has been extended to 1990. The "Provisional Regulations will also apply to lease income earned in China by foreign leasing corporations.

#### Income from "Passive Investments"

Foreign enterprises which have no established organization in China are assessed at 20 percent on their passive investments which produce income in China, which is deducted from each payment made by the paying unit. The just-mentioned "Provisional Regulations" also apply to "income of non-established organizations:.. Section 11 of the "Foreign Enterprise Income Tax Law" has rules for tax abatement and exemption which only apply to such foreign enterprises as have no such organization. In actuality, any of the tax reduction or exemption preferences on accrued income are directed at these foreign enterprises, since income from "passive investments" is the object of these preferences.

As for tax payments for foreign enterprises which have set up a presence in China, the "Foreign Enterprise Income Tax Law" provides no special guidelines. An example would be a foreign enterprise which earns royalties on assignments of rights to patents or proprietary technology (which is commonly viewed as a form of passive investment income) and at the same time has an established presence in China, providing technical guidance, taking care of training Chinese workers, or setting up repair facilities. The income of this organization is taxed, naturally, under the Foreign Enterprise Income Tax Law at a progressive tax rate. The question is how to tax the royalties? Should it be a payment at the 20 percent accrued tax rate or taxed at the progressive income tax rate as part of the income of the organization. It would seem from the explanations in the "Foreign Enterprise Income Tax Law" and the "Regulations" that the latter would apply; and as soon as a foreign enterprise has an established presence in China, its income from production, operations, and other sources should all be taxed in accordance with that law. When calculating the income of the enterprise recognized, non-business related income should be included as well. This would seem to be an adoption of the "principle of attraction"—the state in which the presence is located has the right to assess all income from any source within that state of the foreign enterprise establishing the presence, whether or not it is related in some way to that presence. Since the definition of "foreign enterprise" is not spelled out, whether or not China has adopted the "principle of attraction" is not entirely clear. For instance, a foreign parent corporation collects fees for patent rights in China. Its subsidiary provides a range of services through a division in China. A Chinese enterprise pays patent royalties directly to the

parent corporation and fees for services to the Chinese presence of the subsidiary. Is this a case of one foreign enterprise or two? In actual practice, Chinese revenue departments may distinguish between the different types of income depending on who the royalty fees are directly paid to and whether fees for technical services are included as part of royalties. The investment income of the parent corporation mentioned above would be taxed the 20 percent accrued tax, while the subsidiary would be assessed according to the progressive rate of the foreign enterprise income tax on the earnings of its presence in China.

We have already addressed the issue of whether an individual can be considered a "foreign enterprise." In many situations, the term "enterprise" and the term "operations" are treated as synonymous. Operational activity carried out within China, whether by a foreign corporation or by an individual, should be taxed under the "Foreign Enterprise Income Tax Law." However, is a foreign individual who has no established presence but has passive income originating in China a taxpayer for purposes of the "Foreign Enterprise Income Tax Law" or the "Personal Income Tax Law?" Although the tax rate is 20 percent in both cases, the latter does not have the various kinds of tax preferences set forth by the former. Therefore, foreign attorneys generally suggest that individuals with passive investments in China (such as loans to foreign enterprises or cooperative enterprises within China) use personal corporations instead of investing as individuals.

### III. Subsidiary Companies

We have already mentioned above that foreign enterprises can establish subsidiary companies on Chinese soil. In such a case, how does a subsidiary company in China pay taxes? The "Foreign Investment Enterprise Law of the PRC" merely stipulates: "Foreign investment enterprises shall pay taxes pursuant to the relevant state tax allocation regulations and may enjoy preferential treatment in the form of tax abatement and exemptions. After-tax profits of foreign investment enterprises reinvested within Chinese territory may apply pursuant to state regulations for a refund of a portion of the tax payments already made on that reinvested." (Foreign Investment Enterprise Law, section 17.) As of the present time, China has not enacted any special legislation on taxation of foreign investment enterprises. It is our view that foreign investment enterprises established pursuant to Chinese law which "meet the conditions set forth according to law for legal persons, acquire the status of legal persons according to law." In this regard they are the same as joint venture enterprises. The only difference is that a foreign investment enterprise does not entail participation by Chinese capital. For purposes of tax law, it can be deemed to be an independent taxpaying entity and assessed enterprise income tax on its worldwide income. When a subsidiary company repatriates profits, it should also be assessed a 10 percent accrued income tax as set forth in the "Income Tax Law for Chinese-Foreign Joint Venture Enterprises."

Most nations of the world do not rely on who controls the capital in a company in determining tax assessments; rather, they look to whether the company serves the interests of the country's nationals--that is, is the company set up in accordance with that country's laws, or is the company's central

management located within the territory of the company. As long as the company is a resident of the country, then "personal jurisdiction" can be exercised to assess tax on its total income. A subsidiary company set up in China is a Chinese legal person. Naturally, China enjoys jurisdiction to tax its worldwide income and to grant relevant tax abatement or exemption treatment to it.

#### IV. Individual Income Tax

The supervisors, managers, and other workers which a foreign enterprise sends to China to work in an equity or contractual joint venture, branch organization, representative office, or subsidiary company should pay individual income tax as set forth in the relevant provisions of the "Individual Income Tax Law." If they are resident in China for less than one year, taxes should be paid only on their income within China. If they reside in China for more than one but less than five years, they should pay taxes on income from abroad which they bring into China. If they reside in China for above five years, they should pay taxes on their worldwide income. However, based upon relevant explanations by the Ministry of Finance, if these individuals have as reason for their residence in China merely the fact that they are engaged in business, and are not prepared to make China their permanent residence, if they reside in China for above five years, then the income which they collect from outside China is exempt from the individual income tax, whether it is brought into China or not.

#### V. The Unified Industrial and Commercial Tax

Foreign enterprises engaged in industrial and commercial activity within China also must pay the Unified Industrial and Commercial Tax pursuant to the "Industrial and Commercial Unified Tax Provisions of the PRC (draft)" and the "Issues Concerning Collection of the Unified Industrial and Commercial Tax from Chinese-Foreign Equity Joint Ventures, Cooperative Production Joint Ventures and Foreign Commercial Independent Investment Enterprises". Even though this is not an income tax, it functions as one in a certain sense and can be construed as a tax on total earnings or income. For instance, a Hong Kong company signs a service contract with a Shanghai computer technology research institute on a microcomputer system. An industrial and commercial unified tax of 3 percent will be assessed on income from fees under the contract.

#### VI. Tax Assessment Agreements

Whenever a country's tax laws have an international impact, its domestic tax law provisions are always modified to one extent or another by taxation agreements which the country signs. Moreover, once a taxation agreement takes formal effect, its provisions become an organic part of the country's tax laws.

Although tax laws affecting foreigners have only been promulgated over the last six years, China has negotiated tax agreements with other nations at a startling pace and signed such agreements with 19 nations, including Japan, Belgium, West Germany, the US, France, the UK, the Netherlands, Norway,

Denmark, Canada, and Malaysia. At the present time, negotiations are underway with such nations as Australia, Switzerland, Thailand, Finland, Italy, Rumania, Singapore, Sweden, and Yugoslavia.

Having basically adopted the 1977 version of the OECD "Model Agreement for Avoiding Double Taxation Of Income and Assets" and the "UN Model Agreement on Double Taxation between Developed and Developing Nations" made public in 1980 for avoiding and offsetting the various tax preferences in domestic laws, China has insisted specifically that the agreements it signs have offset for exemption [2107 0346] "tax break" provisions.

For the foreign investor, principles in China's domestic tax laws which relate to taxation agreements (such as those which delineate who is a "resident", what is a "continuing presence", and the accrued tax rate) are extremely important.

In this short period of time, China has already made the first steps toward a taxation system with real benefits for foreign investors, and has adopted principles of taxation common in the international community. This is an outstanding achievement.

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PROBLEMS OF 'GRANDFATHER CLAUSE' IN GATT

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 6 86 pp 23-29

[Article by Wang Yi [3769 3015]: "How China Can Make the Most of the 'Grandfather Clause' in the General Agreement on Tariffs and Trade']

[Text] 1. Definition of the "Grandfather Clause"

There is a special legal provision in the General Agreement on Tariffs and Trade [GATT], commonly referred to as the "grandfather clause." (Footnote 1) (J.H. Jackson, "World Trade and the Law of GATT," p 28. The expression, "grandfather clause," has been used in different legal contexts to mean different things. For instance, "Jim Crow laws" passed by various states in the U.S. in the 1870's also included a "grandfather clause." Under this clause, a person was entitled to vote only if he or his forefather voted in 1867. The "grandfather clause" in GATT has a totally different meaning. The "grandfather clause" has its own special legal meaning and effectiveness. Its purpose is to reconcile the conflicts between the internal legislation of contracting parties and their obligations under Part II of the General Agreement so that the parties can fulfill such obligations to the fullest extent not inconsistent with existing legislation. At the same time, the "grandfather clause" has also led to a series of legal problems.

The so-called "grandfather clause" initially referred to paragraph 1(b) of the "Protocol of Provisional Application of GATT" [hereafter abbreviated as the "Protocol of Provisional Application."] Under paragraph 1(b), contracting parties to the Protocol of Provisional Application undertook to apply on or after 1 Jan 1948:

- (a) Parts I and III of the General Agreement on Tariffs and Trade, and
- (b) Part II of that Agreement to the fullest extent not inconsistent with existing legislation. (Footnote 2) (GATT, BISD, Vol. IV, 1969 p 77)

Paragraph 1(b) above is the first "grandfather clause" to appear in GATT. Subsequently similar standardized provisions were incorporated into the protocol for accession for every contracting party to GATT. Even after the General Agreement was amended several times and enlarged by the addition of Part IV, similar reservation clauses from Part II were inserted into every

accession of Hungary to the General Agreement on Tariffs and Trade, signed on 8 August 1973, required Hungary to apply to contracting parties provisionally and subject to the Protocol:

- (a) Parts I, III, and IV of the General Agreement on Tariffs and Trade, and
- (b) Part II of the General Agreement to the fullest extent not inconsistent with its legislation existing on the date of the protocol. (Footnote 3) (BISD 20S, 1974, p 3)

Paragraph 1(b) above is also a "grandfather clause."

Briefly, the "grandfather clause" is a reservation clause concerning Part II written into the Protocol of Provisional Application and various subsequent accession protocols. It requires a contracting party to fulfill its obligations under Part II to the fullest extent not inconsistent with existing internal legislation. Its significance therefore is that it preserves the precedence of internal legislation. It is also referred to as the "existing legislation clause" or "conferred qualification clause."

Based on paragraph 1(b) of the Protocol of Provisional Application or a similar provision in a subsequent protocol for accession, legislation in force in a contracting party on the date of its protocol for accession is usually referred to as "grandfather legislation" or, more directly, "existing legislation" in the sense used in the protocol. (Footnote 4) (GATT BISD, 31S, p 79)

## 2. The Legal Effectiveness of the "Grandfather Clause"

The core of the General Agreement is the general most-favored-nation treatment as provided for by Part I, Article I. Under this article, contracting parties to the agreement undertake to unconditionally reduce tariffs on one another's exports and imports in accordance with multilateral most-favored-nation treatment. To ensure that the benefits of tariff concessions are not offset by other non-tariff measures, contracting parties consider it necessary to assume some obligations in the areas of quantitative restrictions and non-tariff measures. These obligations are set forth in Part II of GATT, most of them in these areas: national treatment on internal taxation and regulation, traffic in transit, anti-dumping and countervailing duties, valuation for customs purposes, fees and formalities connected with importation and exportation, marks of origin, publication and administration of trade regulations and agreements, foreign exchange arrangements, subsidies, and state trading enterprises, etc. Before they became contracting parties to GATT, nations or individual customs unions had all formulated internal laws, decrees, rules, and regulations in the above-mentioned areas which were inconsistent to varying extents with Part II of GATT. Thus conflicts occurred between the legal authority of internal legislation and that of the provisions of Part II, and the need arose to decide which of them should prevail over the other. That is why contracting parties drew up the "grandfather clause" to reconcile this conflict in legal authority by ruling that existing legislation should have precedence over Part II in case of a conflict. In other words, GATT allows the contracting parties to fulfill their obligations under Part II

to the fullest extent not inconsistent with existing legislation, thereby removing the need to revise or repeal their "existing legislation."

To give "existing legislation" application priority under the "grandfather clause," however, does not mean that internal legislation prevails over international law. On the contrary, it shows that international law prevails over internal law. If the two conflict, and if the contracting party concerned wants to reserve the effectiveness of its legislation, it must first have a reservation clause written into an international treaty. The "grandfather clause" itself is just such a reservation clause. It regulates international obligations. It is exactly this clause which confers on contracting parties exceptional prerogative regarding their "existing legislation." Accordingly, international law still prevails over internal legislation. As the GATT council noted after reviewing the working party report on a case over the "manufacturing clause of the U.S. copyright law" in 1984, the Protocol has been conceived of as providing a temporary dispensation to enable contracting parties to apply Part II of the General Agreement without changing existing legislation or acting inconsistently with it." (Footnote 5) (GATT, BISD, 31S, p 90)

On the legal level, therefore, the "existing legislation" of the contracting parties takes precedence over Part II of GATT. Under the "grandfather clause," contracting parties shall comply with Part II to the fullest extent, provided two conditions are satisfied: 1) existing legislation is not amended, and 2) existing legislation is not violated. (Footnote 6) (J.H. Jackson, op. cit., p 115)

### 3. Inequitable Features of the "Grandfather Clause"

Formally speaking, the "Protocol of Provisional Application" and other protocols for accession include similar "grandfather clauses," which seemingly accord equitable treatment to every contracting party to GATT. In reality, the administration of these clauses may give rise to inequitable results:

1) Time difference. Under the "grandfather clause" in the "Protocol of Provisional Application," GATT's original contracting parties could keep their internal legislation in force on or before 30 October 1947 as "grandfather legislation," while legislation enacted after the date of the Protocol of Provisional Application is excluded from "grandfather legislation." For a country that signed GATT later, its "grandfather legislation" refers to legislation in force between 30 October 1947 and the date of its protocol for accession. When China's status as a contracting party to GATT is restored, questions will arise about which period the "grandfather clause" should apply to. If the "grandfather clause" applies to the period beginning with the date of the "Protocol of Provisional Application," then relevant internal legislation in force in the People's Republic after 1 October 1949 will not be classified as "grandfather legislation" under GATT. If the "grandfather clause" applies to the period beginning with the "date of the restoration protocol," then all relevant legislation in force on and after that date will be legally regarded as "grandfather legislation." The two alternatives have substantially different legal consequences.

2) "Existing legislation" in different nations stipulate unequal rights and obligations. Such legislation differs from country to country in contents and quantity. Some nations impose relatively severe quantitative restrictions on imports and erect quite stringent non-tariff barriers. Others adopt a more liberal and lenient policy. The legislation of some countries is fairly close to GATT, while that in other nations is sharply different. Some nations have enacted complicated, elaborate laws and regulations to impose quantitative restrictions and institute non-tariff measures, while other nations have little such legislation. Although these laws and regulations range from stringent to liberal in contents, from profuse to sparse in quantity, depending on the country, they are all "grandfather legislation" by virtue of the "grandfather clause" of GATT. Clearly they have different legal effects. In other words, similarly worded "grandfather clauses" hide widely different "grandfather legislation." The result is that Part II of GATT exercises inequitable degrees of binding force on different contracting parties and imposes on them disparate obligations.

In 1955, contracting parties to GATT discussed the problem of legislation in connection with the "definitive application" of GATT. The working party noted in its report, "The continued existence of the Reservation would result in an inequitable position as between those contracting parties whose domestic legislation was initially in, or has been brought into, conformity with the Agreement, and other contracting parties whose obligations were less strict by virtue of the continued maintenance of such legislation." (Footnote 7) (GATT, BISD, 3S, p 249) In general, in those contracting parties where the "grandfather clause" applies to an earlier period, "grandfather legislation" is fairly outdated and may gradually have become obsolete and ineffective in the wake of changes in the modern international economic system and the international trade scene. Countries where the "grandfather clause" applies to a later period, on the other hand, had plenty of time to formulate modern "grandfather legislation" to meet conditions in domestic and international economic and trade systems and make the best possible use of the "grandfather clause." These countries are less burdened with obligations set forth in Part II of GATT. Contracting parties with harsh and comprehensive "grandfather legislation" assume relatively few obligations under Part II of GATT and are less bound by it. Contracting parties with a crude framework of liberal "grandfather legislation" undertake more obligations under Part II and are more burdened by it.

#### 4. The Scope of Application of the "Grandfather Clause"

Under the "Protocol of Provisional Application" and other protocols for accession, contracting parties can invoke the "grandfather clause" as a reservation cause to give priority to existing domestic legislation pertaining to subject matter in Part II only when fulfilling obligations set forth in that part of the General Agreement. The contents of "grandfather legislation," that is, the subject matter it regulates, should be identical to or belong to the same categories as subject matter covered in Part II. In other words, in invoking the "grandfather clause," a contracting party must comply with the legal principle of "like regulations."



Generally speaking, the scope of application of the "grandfather clause" is Part II of GATT. In practice, however, it applies only to Articles III through XVIII of Part II. While Part II includes Articles III through XXIII, Articles XIX through XXIII are not relevant to the "grandfather clause." They deal with emergency actions, general exceptions, security exceptions, consultations relating to dispute resolution, and compensation procedures, respectively. Articles III through XVIII are mainly concerned with national treatment on internal taxation and regulation, traffic in transit, the imposition of anti-dumping and countervailing duties, valuation for customs purposes, fees and formalities connected with importation and exportation, marks of origin, publication and administration of trade regulations and agreements, foreign exchange arrangements, subsidies, state trading enterprises, and preferential treatment for developing nations. According to the principle of "like regulations," only that part of a contracting party's "existing legislation" which falls into the above categories can be considered "grandfather legislation." All other legislation is outside the scope of "grandfather legislation." Brazilian law 7404 of 1945 was reviewed by a working party in the "Brazilian internal taxation" case in 1949. Brazil argued that although law 7404 treated some domestic products differently from like products imported from other contracting parties, it fell under Part II, Article III, of the General Agreement and that Brazil was justified in invoking the "grandfather clause" of the "Protocol of Provisional Application." (GATT, BISD, Vol II, p 182) In the well-known case involving "import restrictions by the Federal Republic of Germany [FRG]," the FRG too sought to justify its move to impose quantitative restrictions on certain imported products based on the "German marketing laws" by invoking the "grandfather clause. The contracting parties, nevertheless, approved the report of a working party on 30 November 1957 which affirmed that although the "German marketing laws" came into existence before the General Agreement, these laws required that the goods in question be imported under state monopoly, not that imports be restricted. The contracting parties, therefore, ruled that the "German marketing laws" were not covered by Part II and rejected the validity of Germany's invocation of the "grandfather clause" to impose quantitative restrictions on the products concerned. (Footnote 9) (GATT, BISD, 6S, p 60) When the case came up for review in 1960, the FRG contended that the imposition of "skimming charges" was a basic feature of its "marketing laws," a contention rejected by the working party which argued that, among other things, the imposition of "skimming charges" was part of Germany's obligations as laid down in Part I, Article II, and not Part II. (Footnote 10) (GATT, BISD, Vol II, p 4) The "grandfather clause" applies only to existing legislation relevant to Part II. Thus the FRG's invocation of the "grandfather clause" was deemed unjustifiable. (Footnote 11) (GATT, BISD, 9S p 250)

##### 5. The Mandatory Nature of the "Grandfather Clause"

Under GATT, the application of the "grandfather clause" is qualified in one other way: it is applicable only to existing domestic legislation of a "mandatory nature," not all legislation in force before the "date of the protocol." In other words, if a law is administered at the discretion of the government, then the latter cannot absolve itself from its relevant obligation under Part II of the General Agreement by invoking the "grandfather clause."

This rule is not spelled out explicitly in the "Protocol of Provisional Application" or other protocols but emerged gradually over time through the provisional application of the General Agreement, after being constantly clarified in the "decisions" and "recommendations" in the reports of working parties appointed to help GATT resolve a succession of disputes.

The report of the working party on "Brazil's internal taxation" case, which was approved by the contracting parties on 30 June 1949, tentatively laid down the requirement that "grandfather legislation" be mandatory. Appearing before the working party, the Brazilian delegate explained, "Any change in the rates of tax established by law 7404 of 1945 could not have been effected by administrative action, but would have required amending legislation to be enacted by the Brazilian Congress." The working party accordingly concluded that in view of the mandatory nature of law 7404, the taxes it imposed, although discriminatory and hence contrary to the provisions of Article III, were permitted by the 'Protocol of Provisional Application' and need not be altered so long as the General Agreement was being applied only provisionally by the Government of Brazil." (Footnote 12) (GATT, BISD, Vol 11, p 182)

Below is a well-known statement from the report of a working party on "matters relating to Article XVIII," which was approved by the contracting parties on 10 August 1949: A measure would be permitted by virtue of the "grandfather clause" provided that "the legislation on which it is based is by its terms or expressed intent of a mandatory character--that is, it imposes on the executive authority requirements which cannot be modified by executive action." (Footnote 13) (GATT, BISD, Vol II, p 62) Through this report, the General Agreement also affirmed that "measures" adopted by a contracting party based on "existing legislation" of a mandatory nature also fall within the scope of the "grandfather clause."

#### 6. How China Should Make Use of the "Grandfather Clause" after its Status as a Contracting Party is Restored

The People's Republic is preparing for the restoration of its status as a contracting party to GATT. Legally "restoration" means that while the PRC will be restored to its legitimate status as a contracting party, it will open negotiations with other contracting parties concerning the details of its rights and obligations, such as tariff concessions. Both China, on the one hand, and other nations, on the other, will renounce the rights and obligations of the former Chinese government and neither will hold the other liable for them. A new restoration protocol will be worked out. On the date this new protocol takes effect, China will resume its rights and begin to fulfill its obligations under GATT. This form of "restoration" embodies two principles: first, China is a founding contracting party to GATT and, second, let bygones be bygones. In light of the actual circumstances surrounding the restoration of China's status, a number of preliminary suggestions on how China should make use of the "grandfather clause" are put forward below, based on regulations governing its application:

(1) Establish the "grandfather clause" in the restoration protocol as the legal basis. Upon the restoration of its status, there will be two "grandfather clauses." China was a founding contracting party to GATT: the

former Kuomintang [KMT] government signed the "Protocol of Provisional Application" on 21 April 1948. Paragraph 1(b) of the Protocol was the legal basis on which the former Chinese government exercised the "grandfather clause" under GATT. Nevertheless, the PRC should and must insert a new "grandfather clause" into the resolution protocol that would require China to "apply Part II of the General Agreement to the fullest extent not inconsistent with legislation in force on the date of the protocol." Although the wording of this clause will be similar to the standardized format in the "Protocol of Provisional Application," its legal effects will be entirely different. It shows that based on the principle of letting bygones be bygones, China will begin applying the "grandfather clause" anew and reserve the priority of legislation in force when the restoration protocol is signed. The case for drawing up a new "grandfather clause" is that the legal basis for the restoration of China's status as a contracting party to GATT is the restoration protocol, and it is in the restoration protocol that substantive rights and obligations resulting from bilateral negotiations will be set forth. The "Protocol of Provisional Application" signed by the former Chinese government on 21 April 1948 is no longer legally binding on the PRC. As far as China is concerned, the "Protocol of Provisional Application" is merely a piece of historical document that proves its status as an original contracting party to the General Agreement. What will be legally binding on the PRC is the restoration protocol that the two sides will conclude in the future. Thus it is the "grandfather clause" in the restoration protocol that should be recognized as the legal basis.

(2) It follows from the above that the "grandfather clause" should become effective from the date specified in the restoration protocol (usually the date on which the protocol is signed, or some other set time,) instead of the date of the "Protocol of Provisional Application," (that is, 30 October 1947.) When the "grandfather clause" takes effect after the restoration of China's status will go a long way toward deciding whether the clause will be used effectively. The further back in time the starting date is set, the more it will work to China's disadvantage. If the starting date goes all the way back to the date of the "Protocol of Provisional Application," then the "grandfather legislation" China is entitled to keep will be limited to "existing legislation" of old China on 30 October 1947, while legislation in force in the People's Republic will all be excluded. Clearly this will injure China's interests. Should the "grandfather clause" become effective on a particular date specified in the restoration protocol, we would be able to make use of it effectively since any legislation in force on or before that date legally constitutes "grandfather legislation" provided it is relevant to the subject matter in Part II.

(3) China should intensify the enactment and promulgation of internal legislation in the field of foreign trade. One condition for applying the "grandfather clause" is the existence in a contracting party of legislation relevant to provisions in Part II before its accession to GATT. China has a foreign trade system different from that in market economies in the West. Its existing tariff and non-tariff systems are also different in some ways from Part II of the General Agreement. Then too China's foreign trade system is undergoing reform at present. It is hence imperative that it speed up the enactment and promulgation of laws, rules, and detailed implementation



regulations before restoration talks are concluded and the restoration protocol signed. In particular efforts should be made to codify all policies and detailed practices different from provisions in Part II that relate to the customs formalities of importation and exportation, valuation for customs purposes, internal taxation and regulation, traffic in transit, marks of origin, quantitative restrictions, subsidies, foreign exchange arrangements, and the operational autonomy of state trading enterprises. Laws such as the "Foreign Trade Law" and "Company Law" should be made as comprehensive as possible. In the area of subsidies, China may have to make a special reservation, if necessary, from the "Declaration on the Taking of Effect of Paragraph 16(d)" adopted in 1960 by the contracting parties, if necessary. That way favorable conditions will be created for restoration negotiations. If China's own foreign trade legislation is incomplete or if legislation already drawn up fails to take effect before the date of the restoration protocol, China will lack a basis in domestic legislation when it wants to invoke the "grandfather clause" after it joins GATT. It will then find itself in a passive situation, without a legal basis.

(4) As far as legislative procedures are concerned, if a contracting party wants to invoke the "grandfather clause" under the General Agreement, the piece of existing legislation in question must be of a "mandatory nature." That is, the law does not give administrative discretion to executive agencies and cannot be altered through administrative mechanisms. The problem now is that China's legislative process differs from that in the West where legislative, judicial, and executive powers are separated. Under the Chinese constitution, the National People's Congress formulates and amends basic laws (Article 62) and its standing committee formulates and amends other laws (Article 67). Moreover, the State Council determines administrative measures, makes administrative rules and regulations, and issues decisions or orders (Article 89) in accordance with the constitution and other statutes. Ministries and commissions under the State Council are also authorized to issue orders, instructions, and rules (Article 19) within their own jurisdictions. (Footnote 14) (See "Legal Code of the People's Republic of China, People's Publishing House, p 18-27) Thus most of China's existing foreign trade rules, regulations, and management procedures were promulgated by the Ministry of Foreign Economic Relations and Trade [MOFERT] and other relevant ministries or commissions. (The "Provisional Customs Law", for instance, was promulgated by the Government Administration Council, while "Customs Control Over Vessels in International Shipping Vessels and their Cargo" was promulgated by the Ministry of Communications and MOFERT.) Although these laws and regulations were formulated and promulgated by administrative agencies, they too are of a legally "mandatory nature." How are these existing rules and regulations to be brought into conformity with relevant GATT regulations? First, China should try its best to make all contracting parties recognize that due to differences in constitutions and political systems, China's laws and regulations promulgated by the proper administrative agencies are of an equally "mandatory nature." If this effort fails, China should consider "reprocessing" this type of laws and regulations by submitting them to the National People's Congress for retrospective approval in order to qualify them as "grandfather legislation."



(5) About legislative techniques. China should remove all provisions couched in expedient, temporary, and provisional language from existing legislation that it hopes will qualify as "grandfather legislation." While the operational autonomy of foreign trade enterprises may be spelled out clearly in a piece of legislation, it is not advisable for the managerial authority of administrative agencies to be included in a law or regulation. Expressions like "the administrative agency may decide the case as it sees fit" should be avoided lest they be questioned by other contracting parties when China tries to invoke the "grandfather clause" in the future after its status is restored, thus leading to unnecessary legal disputes. Furthermore, within China's existing body of legislation today are laws and regulations known as "provisional laws" and "trial regulations," giving people the erroneous impression that they are "optional." In China, provisional laws and non-provisional laws are in fact equally binding. Since all legal compliance conduct during the trial period of a law is effective, the word "trial" is redundant. It may be argued that "trial" is tagged on to indicate that the law in question is not perfect, but how many laws in modern or ancient times, in China or abroad, were perfect when they were first promulgated? No laws are guaranteed to remain unchanged; most are subject to revisions. But if we add the word "provisional" just because of that prospect, we will make the stability and mandatory nature of the law suspect. Contracting parties may demand that we state the effective period of a provisional law as well as the time it will go out of effect. And once the effective period expires, extension is usually disallowed. Even amendments must be in the direction of achieving greater uniformity between the law and provisions in the General Agreement. Actually, China's provisional legislation is not "provisional" at all: many such laws and regulations have been "provisional" for decades. The "Provisional Customs Law of the People's Republic of China," for example, has been "provisional" since 1951 and still is today, but the word "provisional" does not feature in all the bylaws derived from it. All language such as this which is inconsistent with "mandatory nature" must be avoided in legislation as much as possible.

(6) Step up research on regulations and cases relating to the "grandfather clause." In GATT's almost 40 years of existence, several disputes have occurred over the "grandfather clause." Consequently, a series of case reports and decisions by working parties have accumulated, from which have emerged a number of precedents and rules worthy of our attention and study. If we grasp these precedents, we can apply the "grandfather clause" more flexibly. After China's status as a contracting party is restored, when a case arises in which China's existing legislation is regarded as incomplete or not of a "mandatory nature," thus rendering the "grandfather clause" inapplicable, we should do everything we can to make use of all exceptions regulations in the General Agreement and secure exceptions to varying extents and for varying periods through the "waiver" procedure provided for by Article XXV(5). Also, it must be realized that the "grandfather clause" is a legal tool available to other contracting parties as well to escape their obligations under GATT as much as possible. Thus China must take pains to examine the "existing legislation" other contracting parties have reserved through the "grandfather clause," its contents, and its possible effects on China's interests so that appropriate measures can be taken. Much remains to be done in this area.

## FOREIGN TRADE, INVESTMENT

### PRC PAPER ON TRADE PROTECTIONISM, TARIFF BARRIER

HK241053 Beijing GUOJI SHANGBAO in Chinese 13 Apr 87 p 3

[Article by Wang Dong [3769 2639]: "Trade Protectionism Recently Shifted to Tariff Barrier"]

[Text] For a long period of time, trade conflicts between Japan and the United States, between Japan and Europe, and between the United States and Europe have emerged time and again. This has become a global problem. In particular, trade conflicts between Japan and the United States, and between Japan and Britain have once again become fierce recently. Trade relations between Western countries have at once become strained. This has evoked extensive attention from world opinion.

The long-standing trade conflicts between Western countries reflect the confusion in current international trade and also indisputably indicate that trade protectionism, now in vogue in Western countries, is a major danger to the world trade system. Western countries have held a series of bilateral and multilateral trade talks since the ministerial level meeting of GATT countries last September, but little progress has been made on all issues as the parties concerned adopted different attitudes and the [phrase indistinct] and benefits of all parties. Therefore, the various talks between Western countries have failed to solve the problem.

One important characteristic of trade protectionism in recent years has been a shift from tariff barriers to non-tariff barriers. However, recent trends indicate a shift from non-tariff barriers to tariff barriers. For example, one essential provision of a trade protectionism bill adopted by both Senate and House representatives of the U.S. Congress on 25 March this year is that the United States will levy tariffs on products exported by countries that sell the products in violation of international trade agreements and at prices lower than production costs. Then, U.S. President Reagan announced on 27 March that the United States would levy a 100-percent tariff on imported Japanese electronic products. This strong retaliatory measure is a result of increasing trade protectionism within United States.

The current confusion in international trade is the cause of trade protectionism adopted by major Western countries in recent years in foreign trade between each other, and trade protectionism has in return disastrously

hampered international trade. The increasing growth of trade protectionist forces has done harm to developing countries. According to statistics, when the rate of increase of world export volume dropped from 7.8 percent in 1983 to 3 percent in 1986, the increase rate of import volume of industrial countries dropped from 12.5 percent in 1984 to 4 percent in 1986 and the increase rate of export volume of developing countries dropped from 7 percent in 1984 to 1 percent in 1986. Therefore, developing countries are the biggest victims of trade protectionism. The textiles, garments, shoes, iron, and steel exported by them have been restricted to different degrees by various kinds of trade protectionism adopted by developed countries. These products are precisely the strong point of developing countries in the export business.

The world economy is now in a frail transition period. Trade protectionism, which has become more and more serious since the beginning of this year, has not only restricted the export business of developing countries, but has also pushed the international free trade system to the verge of collapse. The current trade conflicts between Western countries reflect not only the increasingly fierce contradictions between developed countries, but also the conflict of interests between developed Western countries and developing countries. Therefore, to basically solve the problem of a continuous slow growth of the world economy and international trade over the past year, Western countries must not only hold bilateral or multilateral trade talks to curb the development and spread of trade protectionism and try every means to solve and ease the fierce contradictions between Western countries, but must also take into account the situation of developing countries, increase opportunities for developing countries to enter markets of developed countries, create a good environment of international trade, and strive to build a fair international trade system.

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CSO: 4006/577

## FOREIGN TRADE, INVESTMENT

### BRIEFS

**GUANGXI COMPANY IN GAMBIA**--Since 1979, engineers, technicians, and skilled workers from Guangxi region's No 2 construction engineering corporation have been participating in construction work in Gambia. They have built for Gambia the friendship stadium with a floor space of 22,295 square meters at a construction cost of over 20 million yuan. Over the past few years, the company has trained more than 700 skilled workers for Gambia. In 1986, the company undertook a total of 13 construction projects in Gambia. Of them, eight have already been completed. During the first quarter of this year, Gambia entrusted the company with three construction projects and invited the company to submit tenders for another three projects in the country. To enable the company's construction team to work in Gambia for a long period of time, the Gambian Ministry of Justice recently approved a plan for the company's management office stationed in Gambia to establish a permanent base in the country. The base covers a floor space of 8,280 square meters, with a 21-year period of validity. [Summary] [Nanning Guangxi Regional Service in Mandarin 0930 GMT 15 Apr 87 HK] /8309

CSO: 4006/577



## ECONOMIC ZONES

### MORE LATITUDE URGED FOR XIAMEN SEZ BANKS

Xiamen ZHONGGUO JINGJI WENTI [CHINA'S ECONOMIC ISSUES] in Chinese No 1, 20 Jan 87 pp 36-39

[Article by Hong Wenjin 3163 2429 6855]: "Emphasis in Development of the Banking Industry in the Xiamen Special Economic Zone"]

[Text] This article proposes two discursive views on the issue of the emphasis in development of the banking industry in the Xiamen SEZ.

I. The Xiamen People's Bank Should Establish a Powerful Leadership Organization for the Banking Industry Vested With a Certain Amount of Policy Decisionmaking Authority and Administrative Structure for Macroeconomic Control

Banking in Xiamen should not have the same pattern as banking in Shenzhen. As an executive organization functioning in an SEZ, it must be subject to the dual leadership of both the headquarters of the People's Bank and the Xiamen Municipal People's Bank. But which of the two leaders should be paramount? I am inclined to come down on the side of leadership by the headquarters of the People's Bank as being paramount.

The explanation that follows centers on two problems as follows:

A. The Xiamen People's Bank Should Enjoy a Certain Amount of Policymaking Authority

By this is meant primarily deciding currency policy goals and policy methods to be selected. In view of China's circumstances, maintenance of uniformity in macroeconomic control throughout the country requires that once currency policies have been set by the headquarters of the People's Bank, all local People's Banks must become faithful executors of those policies and positively may not act on their own volition. However, since the founding of the Xiamen SEZ, there has been a special environment of three kinds of partially or wholly foreign-owned enterprises, the importation of foreign goods, capital, and technology from abroad and its transfer to the hinterland via coastal-hinterland cooperation, and tourism. These have given rise to a certain special situation in the circulation of currency and transfers of capital. Today people generally feel that there are more imported goods, exports are

more centralized, businesses have merged and prices have risen. In terms of development, three changes are required in macroeconomic controls as follows:

### 1. Institution of a Savings Deposit Reserve Rate and Elimination of the Uniform 10-Percent Reserve Rate

Institution of a regional savings deposit reserve rate is a sensible measure in a distinctively regional situation. Because derivative deposits are manifested in frequent circulation of funds and payments of a substantial amount of currency, since the prevailing 10-percent reserve rate is not graduated according to the size of deposits, this makes it even less possible to reflect the effect of currency policy in different areas, and makes impossible a differentiation between the money supply in the Xiamen zone based on requirements of the international business situation and the money supply in ordinary areas. (Were Xiamen to institute a rather high reserve rate in order to contract the money supply, the money supply would be reduced.) Clearly, revision of the uniform reserve rate is necessary. In March 1986, the revised Japanese deposits reserve law provided for the adoption of different reserve rates. Historically, the United States has had different reserve rates for different reserve districts. Lessons may be drawn from these examples. Since Xiamen operates on special policies, it should be the first to institute a different reserve rate to help more effectively regulate the supply of currency in keeping with Xiamen's special status.

### 2. Gradual Delegation of the Right To Set Interest Rates

The current interest rate control system has not become a means for macroeconomic control. Since the extent of fluctuation is so small, it actually plays only a miniscule role in the macroeconomic control of enterprises. However, the building of SEZ's is not static and immutable. Once the great common pot system for enterprise and even bank funds has truly been demolished, a qualitative takeoff will occur in their administration and management. At that time, the market economy must inevitably develop more, and accompanying it will be various kinds of new short-term loan funds methods that will force the diversification of interest rates and will require that an interest rate be capable of serving as a macroeconomic lever. For this reason, interest rate controls should be gradually relaxed and the Xiamen People's Bank should be given the right to make decisions and to use its own interest rate policies to play a role in market interest rates. It should be noted that this change in the role of interest rates is a product of a developed market economy, and in an export-oriented economy it also has a bearing on foreign markets. Our lack of experience in this regard requires remedial action.

### 3. Institute Foreign Exchange Controls Fairly Independently and Open Foreign Exchange Markets

The goals of China's currency policies have recently been defined to include the international balance of payments. This has required that central banks in SEZ's rid themselves of their former passivity in serving only as foreign exchange tellers and statistical units in foreign exchange control matters. I believe they should strive to obtain relatively independent examination and

reapportion foreign exchange. They should study the scope and the structure of foreign exchange receipts and disbursements so as to raise the level of foreign exchange payments plans. They should deal with problems that arise in connection with foreign finances, such as duplicate distribution of retained foreign exchange and imbalance in the foreign exchange of the "three kinds of partially or wholly foreign-owned enterprises." Most important is the need to study international financial markets and commodity markets and to learn to use economic techniques (such as exchange rates and interest rates) to control foreign exchange behavior while strengthening planning rather than to continue to rely on administrative methods. During the Seventh 5-Year Plan, the Xiamen SEZ People's Bank should try to lift restrictions on foreign exchange markets and genuinely make use of the role of the four "windows" [the window to technology, the window to management, the window to knowledge, and the window to foreign policy] and the role of being a conduit for technology.

#### B. Establishment of an Early "Warning" Monitoring Structure for Effective Application of Currency Policy Methods

For local branches of central banks to carry out currency policies is really a routine activity in which the main task is to monitor policy implementation so as that appropriate preventive measures or positive actions may be taken.

It is the amount of money in circulation and the limits of credit that currency policy controls. Formerly China used dual-line controls (i.e., two plans) for this purpose, but it is about to change to single-line control (namely, currency supply). This marks an enormous advance in control methods, and it appears that special zones may serve as pilot projects as a first step.

Good performance in macroeconomic control to restrict and regulate the supply of currency is also a task for all special banks and other banking institutions. This is because it is only when there is macroeconomic control that it is possible to talk about enlivening the microeconomy. Nevertheless, it is the People's Bank that is directly responsible for carrying out currency policy. Therefore, all specialized banks (including foreign capital banks) have been required to post business reports, and the People's Bank has had to intensify audits and do a good job of forecasting. This was the former method. To do only this will not suffice for macroeconomic control of a SEZ. A monitoring system has to be built so as to have available at all times pertinent currency-circulation and credit-liberalization information. This information may then be analyzed to determine whether policies have been contravened, thereby permitting counteraction when problems are discovered, preventive measures to correct them, or positive action for some anticipated policy effect.

By way of clarification, I would like to outline the U. S. currency policy structure. The following figure provides an explanation:

Policy Method	>	Operating Goal	>	Intermediary Goal	>	Currency Policy Goal
Three major methods and Selected methods	(1)	Trade discount rate		Long-term interest rate		Influence economic activity; realize goals
	>	(2)	Trade discount rate	Total deposit reserves		
		(3)	Total deposit reserves	Total currency		

The currency policy goal in the figure (the final goal) and the policy methods are decided by the U. S. Federal Reserve Board; however, implementation is the responsibility of each regional branch. The items marked (1), (2), and (3) represent the three methods formerly used. Numbers (1) and (2) were used up until the 1970's; Number (3) was the method adopted in the 1980's and reflects a change in the practice of American currency policy. Intermediary goals were established because of the long time required to realize the final goal; furthermore, frequently it is difficult for the central bank to control the final goal, so some variables that can be controlled and that are also closely related to the final goal have to be resorted to as intermediary goals. By so doing, first, feedback can be provided directly and steadily to the central bank during the transmittal process so as to discern whether policy methods are having the anticipated effect on economic activity; and second, it makes it possible to show whether the overall effects of policy actions are in keeping with policies for relaxing (or tightening). However, the intermediary objectives are not sufficient by themselves. In order to get better feedback information during implementation, some operating goals have to be set. This is because the correlation between policy methods and intermediary goals is a rather distant one and subject to change as well. Two of the three operating goals in the figure can be controlled by the U. S. central bank (namely the trade discount rate and the total amount of deposit reserves). Control of them makes attainment of the intermediary goals easier. As one might imagine, as soon as any change takes place in policy methods, the operating goals are first to be affected; subsequently the final goal is affected through the intermediary goals. In this process, the operating goals play an important role in the central bank's day-to-day activities. For this reason, a deposit reserve formula or a basic currency formula (deposit reserves like currency in circulation) is applied, changes in the formula being used to discover pertinent reasons in order to take appropriate preventive actions to insure realization of the final goal. Such a currency policy structure can enable local central banks to keep on top of movements during the currency supply transmission process. We can benefit from studying it and drawing lessons from it to effect improvements. At least as far as the Xiamen SEZ is concerned, an environment exists for drawing lessons, which includes manipulation of the deposits reserve rate to great advantage both in affecting currency circulation and in helping regulate the amount of credit. We might study the application of this structure to bring about reform under the policy objectives already set by the bank headquarters (such as under the present tightening policy), and attempt a trial run during the Seventh 5-Year Plan. It should be noted that a structure such as the present one that emphasizes only the withdrawal of currency from circulation while neglecting the effects of deposits on money supply will not be able to solve price inflation problems very well.



11. Specialized Banks Should Run Independent Operating Entities To Support A Change In the Orientation of the SEZ Economy Toward Exports and For Its Healthy Development Under Required Monitoring and Control

What special perspective should a banking industry in the Xiamen Special Zone environment have? The answer is as follows:

A. Specialized Banks Should Be Vested With Greater Self-Determination To Make Their Operations More Businesslike, Becoming Real Banks

Specialized banks and other approved banking institutions (including foreign capital banks) in SEZ's should have self-determination, within the limits of macroeconomic policymaking approval, on matters such as authority to decide on the thrust of investment, the amount, time limits, and interest rates for different kinds of credit, methods, and loans. They should be able to use their own funds (including share capital) together with actively assembled savings deposits and borrowed funds in businesslike operations, supporting the readjustment of the structure of industry in the economic sector, promoting the expansion of enterprises that export to earn foreign exchange, and actively serving to provide funds needed to import foreign goods, capital, and technology by coastal areas for transfer to the hinterland via coastal-hinterland cooperation, thereby gaining economic benefits for both society and themselves. During this process, they would steadily innovate and improve, hasten modernization and become financial entities able to compete with foreign institutions in the same line of work.

Certainly realization of such a fine prospect must await further reform of the banking system. Banks have to become competitive. I believe that the pattern of specialized banks being paramount need not be changed; however, there should be an expansion of the area of appropriate overlapping of functions. At least, every bank should be able to deal in foreign exchange, because this is an inevitability for export-oriented banks. This expanded overlapping need not affect "paramount position" because as the SEZ economy expands, the dominance of "paramount position" will become greater and greater.

The most important reform for every bank right now is to make operations more businesslike. If every bank system would devote a lot of effort to studying this problem, I believe results could be achieved very shortly. This article does not go into this matter in detail; it is only necessary to emphasize here that a prerequisite for more businesslike operations is genuine destruction of the psychology of eating out of a large common pot. Each bank should have an amount of funds for which it is ultimately responsible; otherwise, lacking clear-cut rewards and punishments and without distinction between profits and losses, there will be no incentive for trying to be businesslike. Destruction of the large common pot mentality in banks themselves requires a new separation of funds; however, in many banks in the Xiamen SEZ as elsewhere, most of the funds available for loans are tied up in circulating funds for enterprises, and bad debts and problem funds that the bank is unable to put to productive uses are also quite numerous. All this means a reduction in funds available to the bank so they may not be able to recirculate them independently in the SEZ competitive environment. For banks

to be genuinely able to apportion sufficient operating funds will require, first of all, eradication of the situation in which business enterprises eat out of the banks' large common pot and the clearing up of bad debts owed by enterprises. Both of these are related to public finance. In the SEZ's, it is particularly necessary to solve the problem of business enterprises taking the lion's share of loan funds. Unless this is done, putting banks on a business footing will be an empty phrase. I believe this problem may be solved through a combination of relaxation and tightening of currency policy and fiscal policy. We might as well run a pilot project in Xiamen to find out which of the following two methods to select: (1) liberalization of fiscal policy while maintaining the present tightening of credit by banks to enable enterprises to replenish the funds they have at their disposal; or (2) no change in fiscal policy, but a limited liberalization of credit policies for banks, using support for certain enterprises to create more profits. In making a selection from among these two methods, public finance and bank tightening of credit have to be closely coordinated, and the cooperation of pertinent departments in charge will be needed as well. The Xiamen SEZ is a small area in which such a pilot project may possibly be more easily run than elsewhere. In addition, circumstances permitting, support to enterprises' issuance of stock shares or bonds as a means of solving this problem is also a very attractive method at the present time.

#### B. Concern for the Healthy Development of Banks, With Institution of Needed Supervision and Control

In contrast to the high degree of control exercised over foreign banks, China's banks are little supervised or controlled. On the contrary, traditional theory holds that banks are organizations that represent the state in supervising the economic sector. This traditional theory has been challenged during the opening to the outside world and the establishment of SEZ's. This is because the market economy of SEZ's is more greatly developed, and state mandatory planning is reduced; the laws of value will play a role over a wider area; the forms of bank credit per se are more varied; interest rates are flexible, and overlapping among banks in the functions they perform has expanded and competition has become more intense, so it is no wonder that when faced with the international market, banking has been influenced by internationalization and liberalization. Banks must be controlled and supervised by the People's Bank.

Without doubt, China's supervision and control of banks is mostly to provide macroeconomic guidance to specialized banks so that their activities are in step with central bank policies. However, one cannot deny that, to a certain extent, China's supervision and control functions to insure the safety of savings deposits. Up until now, the conventional view has been that China's banks cannot fail, so there has been no problem of a run on deposits. This is certainly true. However, bank failure is one thing and bad bank operation is another. The problem of banks being run badly should attract our attention, and the destruction of large common pots, in particular, must be carried out. Moreover, since savings deposits are always being loaned out, were they not to be used properly, a problem would arise in being unable to pay back deposits (in fact, this has already happened!). Clearly, to a certain extent, supervision of banks is for their own healthy development, and this is

particularly the case in the market economy and in the competitive conditions of SEZ's.

It is heartening that we already have some legislation on bank control. However, a substantial portion of the legislation consists of regulations in the nature of principles; too little of it consists of detailed rules and regulations. All jurisdictions should supplement this legislation, and the Xiamen SEZ should take the lead. Detailed laws would be easier to follow. The "1986 Banking Regulations" passed in May 1986 by the Hong Kong Legislative Council is 85 pages long. The strictness and concreteness of these regulations provide a very good example for a country to exercise strict control. In the Xiamen SEZ, banks are mostly specialized banks, so it might seem inadvisable to adopt overly strict rules so that they can develop more fully. However, at the very least, we should make more specific the leadership role of the People's Bank, first of all by strengthening regulations pertaining to inspections, and clarifying the scope and standards of inspections. Second, professional guidance measures should be set. Control should be exercised by units responsible for funds who should first apportion funds and then set the percentages of equity capital and loan funds, the limits on loans to any given enterprise, the ratio between savings and loans, the ratio between floating capital and floating debt (in order to prevent the bottoming out of loan funds), the ratio between loans and other assets, the ratio between deposits and venture assets, etc. Of course, penalties for violations of regulations should be set including fines. In the control of foreign capital banks, attention should be given to conditions, the scope of operations and the repatriation of profits in order to urge them to import capital for China's use while maintaining the principle of reciprocity at the same time.

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## FINANCE, BANKING

### SHORTAGE OF CIRCULATING FUNDS RETURNS

Shanghai SHIJIEJINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 9 Mar 87 p 6

[Article by Wang Huaqing [3769 5478 1987], of the Shanghai Branch of the People's Bank: "Circulating Funds Are Again in Short Supply in China"]

[Excerpt] Circulating funds will be in short supply again this year in China. Normally the demand for funds is smaller in the first half of the year. But, money has been in short supply since the beginning of this year. On the one hand, enterprises are requesting loans from banks; on the other hand, banks are running low on funds. Money supply is expected to become even tighter in the latter part of the year. What is causing the sharp rises and falls? A review of what has been experienced and learned in recent years can be useful.

Business demands for circulating funds had been strong since 1979 and reached an overheated state in 1984, causing credit to go out of control. The state then adopted a policy of credit tightening, and in the ensuing years credit was being curbed by the dual control of loans extended and money in circulation. The tightening policy adopted in 1985 was in the right direction. However, owing to the lack of a well-developed market system and a sound bank loan distribution mechanism in China, credit actually became hard to get for all enterprises with no distinction. It is clear that the key to solving the problem lies in how to form a money market and how to use interest rates and other economic levers to control loan distribution, thus bringing the economic benefits from loans into full play, while keeping the amount of currency in circulation within preset limits.

Last year, the development of the money market in China was spectacular. However, because the rate of national economic growth was rather low at the beginning of the last year, some maintained that it was caused by inadequate credit, and the opinion was echoed from all over the country. Even the central bank could no longer sit still. As a result, money supply began to increase. Credit grew by an even larger margin in 1986 than it did in 1984. Industrial loans increased 38 percent over such loans in 1985, greatly exceeding the 9.3-percent increase in industrial and agricultural output. Such a big increase in loans for circulating funds indeed brought about a rather "relaxed" environment. However, because the money shortage was not eased on the basis of high economic performance, and because of the lack of a sound mechanism for loans to play a regulatory role on production, the



inevitable results are: 1. Much of the amount loaned was tied up by inventories of finished products. A third of the increase in loans extended last year was tied up in finished products, about 40 percent of which was overstocked. 2. Defaults were on the rise. Last year, the China Industrial and Commercial Bank used 5 billion yuan to pay off old debts, and while much of the old debts was paid off, a much larger amount in new debts became overdue. 3. The availability of large sums in loans led to serious cases of misappropriation and embezzlement. More loans became overdue, and missing circulating funds were often unaccounted for. 4. What is even more important is that during the period of change from the old to a new system, the reliance on increasing money supply not only is no way to fundamentally solve the contradiction between money supply and demand, but may have the same effect as drinking poison to quench thirst, causing the shortage in funds to worsen. For these reasons, curbing the credit expansion should be the right thing to do this year.

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## FINANCE, BANKING

### SUGGESTIONS FOR MONEY MARKET DEVELOPMENT

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 9 Mar 87 p 6

[Article by Li Maiqiu [2621 7796 4428], manager, and Hu Jizhi [7579 4949 0037], researcher, of the Wuhan Branch of the People's Bank: "A Few Suggestions for the Further Development of the Money Market"]

[Text] This year is a crucial period in the growth of the money market in China. The following are suggestions for the continued development of the money market.

1. Finance groups should be set up to facilitate short-term borrowing among banks. Consideration should be given to setting up such finance groups in each bank office at the grassroots level. The tasks of these groups will be to handle the banks' dealings in the money market and to serve as the contact points for short-term borrowing among banks. This will help make short-term borrowing a regular practice among banks.
2. Market associations should be established to promote relations between markets in different places. Market associations can be formed at two levels. One should be an association of markets of all the specialized banks in the same area, and arrangements should be made for the markets to open in turn and to be linked to one another in order to make full use of the "trade differentials" in the financing process. The other should be an association of the major money markets in different economic regions based on the key cities. Consideration may be given to basing such an association on the seven money markets in Shenyang, Tianjin, Si'an, Shanghai, Wuhan, Chongqing and Guangzhou. These money markets should provide each other with information on their money-supply situation--if there is a surplus or shortage of funds. Each should post the amounts, terms and interest rates of loans in demand at the other six markets.
3. Financial instruments should be increased to enhance market functions. In actual work, the following steps can be taken: a) the existing financial instruments should be decontrolled and allowed to be transferred and circulated, for example, treasury bills, bonds, commercial notes, etc.; b) in coordination with the reform of enterprises, permission should be given to some enterprises with good credit and performance records to issue standardized stocks and bonds,

and conditions should be created for stocks and bonds to be traded on the market; c) permission should be given for enterprises to issue short-term promissory notes.

4. The financial strength of banks in key cities should be increased to help form regional money markets. To promote the development of regional money markets, it is necessary in the area of credit management to gradually reduce the proportion of funds allocated by higher authorities to lower levels and increase the proportion of lateral loan funds. Lateral loan funds should be distributed mainly among the key cities which are growing into regional economic centers. Loans will then be extended by banks through the money market to areas surrounding the key cities.

5. Management and supervision should be strengthened to insure the sound growth of money markets. Procedures for the administration of money markets should be established and perfected as soon as possible. For short-term borrowing among banks, a supervisory system should be established to insure that obligations are met and that documents attesting to short-term loan transactions have the binding power provided for by the contract law. With regard to the issuing of stocks and bonds, administrative procedures should be published, and an enterprise credit rating system should be established to insure the sound development of the money markets.

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## INDUSTRY

### ASSOCIATION GIVES NEW PRODUCTIVITY TO ENTERPRISES

Shanghai SHIJIE JINGJI DAOBAO in Chinese 9 Mar 87 p 7

[Text] Competition on the machinery market is becoming increasingly acute. How can the machinery enterprises hold their own in the competitive market without sufficient investment? This problem is causing much concern in economic circles. The Shanghai Light Industrial Machinery Co has shown impressive results from lateral economic associations with other enterprises. In the past 5 years, the 11 enterprises under this corporation have increased their output value by more than 22 million yuan, at an annual growth rate of 20 percent, through joint production with 12 factories in three Jiangsu counties. to increase their own production capacity to the same extent would require nearly 10 million yuan in new investment and would take 5 years to complete.

Joint production has enabled these small and medium-sized enterprises to make up each other's deficiencies, enhance their competitiveness as a trade, and produce more goods which are in great demand but short supply. Between 1983 and 1986, the factories engaged in joint production with the Shanghai Light Industrial Machinery Co marketed more than 1,800 complete sets of machineries in short supply and produced more than 4,100 component parts for other machinery plants, equivalent in annual capacity to three or four medium-sized plants.

Joint production has accelerated development of new products. Shanghai enterprises are getting old products jointly produced elsewhere so that they can use their limited financial and technological resources for reforms and product upgrading and updating and maintain their lead in technology and products over others in the same trade. The Shanghai People's Machinery Plant has through joint production digested and assimilated advanced technology from abroad and successfully trial-produced four types of new printing machines of advanced domestic and international standards.

Markedly increased economic returns is another benefit brought by joint production. The Shanghai No 1 Printing Machine Plant, which was engaged in joint production with three factories in Wuxi County, increased its output value and profit 200 and 230 percent, respectively, during the Sixth 5-Year Plan. Its per capita profit of more than 8,300 yuan was more than double that of 4,000 yuan of other enterprises of the same trade.

The Shanghai Light Industrial Machinery Co has achieved good results from its lateral economic associations with other enterprises, because its factory



directors and managers understand that joint production is the right choice they have to make in order to meet the challenge of the increasingly competitive market. One enterprise or one factory has no chance of success facing competition alone. Joint production enables the advanced enterprise to develop fully and gives the backward ones a chance to catch up, thus benefiting both in the process. For example, by joint production with the Shanghai enterprise the Wuxi No 3 Machinery Plant has increased its output value and profit both by 1,000 percent. Many such factories have become major local enterprises.

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## INDUSTRY

### STRENGTHENING OF MARKET CONCEPT FOR SHIPBREAKING URGED

Beijing RENMIN RIBAO in Chinese 22 Feb 87 p 2

[Unattributed article: "Strengthen the Concept of a Market for Shipbreaking"]

[Text] Shipbreaking is a new industrial sector for China, which has been called "the smokeless metallurgical industry."

After somewhere between 2 and 3 years of development, the dismantling capability of China's shipbreaking industry has already jumped to the world's front ranks. In 1986, the Chinese Central Shipbuilding Corp has increased the tonnage of its dismantling of abandoned ships by 40 percent over the previous year.

Shipbreaking is a sector which is heavily influenced by a number of external factors. Fluctuations in the price of abandoned ships on the international market, adjustments in the state exchange rate, and changes in supply and demand relationships on the domestic steel market all may have a major or even an absolute impact on economic results and developments in shipbreaking. With the fall of world oil prices, the number of ships used for transport of oil has increased while the number of abandoned oil tankers on the market has dropped. Along with other factors, prices on the international market for abandoned ships has gone straight up since last October, and has reached an average of more than \$20 per short ton. This has been a severe test for the shipbreaking industry. From the domestic standpoint, adjustments in China's exchange rate have occurred to a certain extent over the latter half of last year. This year's steel market selling price has tended to be stable. All these factors have had a direct impact on shipbreaking.

Changes in the domestic and foreign market have led to sharp increases in shipbreaking costs. Yet this does not mean that there is no role for a shipbreaking industry. There is still a potential to be explored. The most basic method would be to get a feel of the pulse of the market, increase market flexibility, and actively work toward increased production and conservation, increased income and reduced outlays within the industry.

In concrete terms, the first thing to be established is a concept of the market and a grasp on the purchase of abandoned ships. With ship prices

rising, how to acquire abandoned ships at a low price becomes the key to reduced outlays and to completing annual production quotas.

Strict controls over basic investment in the industry and an exploitation of the strengths of current measures are not to be overlooked either. Facilities for production and living within the industry have already been fundamentally integrated. Based upon this year's shipbreaking quotas, there is no need now to further expand the scope of basic construction. Efforts must be made to exploit the potentials in current facilities and upgrade product quality. At the present time, the industry has over 50 steel-rolling shops, which should be fully exploited. Rolling of ship panels should be upgraded. More and better steel should be rolled. Waste should be reduced, and profits should be increased.

Other major facets for increasing returns in the industry include exploitation of intensive manufacture and diversified operations. The singular nature of the product line should be further changed to bring out the industry's natural strengths. A line of products fabricated mainly of material and equipment from abandoned ships should be developed as much as possible. The plethora of types of equipment, instruments, and meters on abandoned ships, when detached from the ships, should be exported to as great an extent as possible. Ones which can be used as is should be, as should those which can be refurbished. Those which can be sold assembled should be. Those which cannot be sold as whole pieces of equipment should be disassembled and the parts which can be used should be sold. In order to better market products of shipbreaking, barriers between enterprises, sectors, and regions should fall. Integrated operations which involve diversified modes should be developed. Sales outlets set up on an intercompany basis can be used along with commercial and material exchange centers and entry markets set up specifically for such purposes. Trading companies can also be tapped to engage in direct or consignment sales.

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## INDUSTRY

### NOTABLE RESULTS REGISTERED IN FIVE MAJOR INDUSTRIES

Beijing RENMIN RIBAO in Chinese 1 Mar 87 p 1

[Unattributed article: "Petrochemicals, Electric Power, Metallurgy, Ferrous Metals and Tobacco Industries: Five Major Industries Show Marked Increased in Economic Results; Last Year Tax Revenues Comprised 64 Percent of Total for Ministry of Industry"]

[Text] Five of China's major industrial sectors--petrochemical, electrical power, metallurgy, ferrous metals, and tobacco--have shown outstanding economic results. The extent of increase in the amount of revenues from these industries in 1986 surpassed that for industrial output value as a whole.

Petrochemical industry: The All-China Petrochemical Corp accomplished an industrial output value of 32.6 billion yuan--up 8.7 percent from the previous year. Output increased markedly for such priority products included in state planning as raw petroleum, the four major petroleum products, ethylene, and plastics.

Electrical power industry: Accomplished a GVIO of 25,137,000,000 yuan--up 8.9 percent from the previous year. Generated 445,450 MW of power, of which 93,160 MW were hydropower and 352,290 MW thermal. This was the most extensive increase in the last few years.

Metallurgical industry: GVIO for priority steel enterprises reached 31.84 billion yuan--up 10.1 percent from the previous year. Output of steel, rolled steel, and pig iron were 52.05 million tons, 40.54 million tons, and 50.08 million tons, respectively--all up between 10.2 and 14.9 percent. Steel output for large and mid-sized steel enterprises in the first three quarters of 1986 increased by 7.3 percent with an increase in total energy consumption of only 3.3 percent.

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## TOWNSHIP ENTERPRISE SHARE SYSTEM STUDIED

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese No 1, 23 Jan 87 pp 35-38

[Article by Song Dahai [1345 1129 3189], of the graduate school of the Chinese Academy of Agricultural Sciences: "An Investigation: a Township Enterprise Share System"; Some of the information in this article was provided by the Qionglai County CPC Political Research Office]

[Text] In the following I shall present a study on how Pingluo Town, in Qionglai County, Sichuan Province, adopted the capital share system according to actual local conditions.

### Birth of Enterprise Share System

The adoption of the share system by the township enterprises in Pingluo is in keeping with the inevitable trend of local rural economic development.

1. Even after the separation of government from enterprises, the problem of excessive interference by the township governments in the management of enterprises remained. The assets of the existing township enterprises in the county were for the most part accumulated by indiscriminate transfer of manpower, land, and material resources from the production teams. The problems with this kind of enterprise are: the lack of distinction between government administration and enterprise management, no clear property rights, no accumulation records, poor management, and poor economic returns. After the separation of government administration from commune management, some rural townships set up independent economic organizations. However, the township governments continued to interfere by administrative means in the distribution of the township enterprises' profits. Such practices as indiscriminate transfer of assets, apportionments, and government control of revenues and expenditures seriously sapped the vitality of the enterprises and hindered their development. How is the problem to be solved? The fundamental solution is to really separate the government from the enterprises in ownership of assets and distribution of profits.

2. Lessons were drawn from the Sangyuan Township reform experiment. In 1981, the county conducted an experiment in Sangyuan Township to turn the township enterprises into "government-run" enterprises. Owing to "leftist" influence,

still quite serious at that time, more than 10 township-run enterprises were dissolved and reorganized into a few enterprises jointly owned and operated by a number of production teams. This was in fact merely putting the enterprises under a lower administrative level. Shortly afterward, the reform ended up a complete failure. The fundamental reasons for the failure were the lack of clear property rights and the serious hired-hand mentality of the workers, with no one to play the role of masters of the enterprises.

3. The inspiration from the output-related system of contracted responsibilities: The county's food problem, which had remained unsolved for 33 years, was solved in just 3 years after the implementation of the output-related system of contracted responsibilities. Once the means of production and working people are combined directly, they turn into a mighty productive force. The fact enabled people to see that as an enterprise is meant to concentrate on production, it makes great sense to divide its collective assets into shares for individual workers, who will become owners working together and, in addition to being paid according to their work, will receive dividend distributions on the shares they hold.

4. The establishment of the township finance system created favorable conditions for the township enterprises to adopt the share system. In the past, the township government had to get all the money it needed from the enterprises, seriously hindering the enterprises' own accumulation and development. Now with its own finance department and responsible for its own budget, the township government has its legitimate revenue sources and can no longer apportion funds at will from the enterprises or take over their profits. This insures the smooth progress of the reform toward the adoption of the share system.

#### Procedures for Implementing the Share System

What is this "share system?" Perhaps it can be described as follows: The assets of an enterprise are divided at their current value into shares and given to workers and staff members according to specific proportions; a portion of the enterprise's after-tax profits is distributed in equal amount per share to shareholders according to the number of shares each holds; and the shareholders are required to meet certain responsibilities and obligations to the enterprise. The three are interrelated and inseparable.

The implementation of the enterprise share system in Pingluo consists mainly of "four changes and lateral associations." The four changes are: 1. Instead of taking the enterprises' profits, the township government now collects taxes (including "surtax"). 2. The enterprises are no longer under contract to the township government. Instead, a contract system is now practiced within the enterprises themselves (the shareholders meeting or board of directors set the targets to be fulfilled by contracts). 3. Instead of directly interfering in the enterprises' internal affairs, the township government now provides macroeconomic guidance in coordinating relations, supplying information, and offering managerial services. 4. The "government-run" enterprises have

become "people-run" enterprises. An inventory is made of the enterprises' assets to determine their value, which is then divided into shares. Those who are given shares are issued share certificates and will receive dividends. An enterprise shareholders council or board of directors is democratically elected by the shareholders.

The lateral associations include economic ties between enterprises or areas and a joint stock company formed independently by the enterprises themselves. They are township enterprise groups brought together by elements of productive forces.

In turning the township enterprises from "government-run" to "people-run," Pingluo started with 14 old township-run enterprises. These old enterprises had assets valued at 825,000 yuan and a net worth of 674,500 yuan. According to the different factors of capital formation and the "share" principle, the net worth of the enterprises was divided into township shares, village shares, enterprise shares, and worker and staff member shares (also known as social shares). Specifically the shares were divided as follows: 1. Shares totaling 92,000 yuan, the amount originally obtained from the villages and production teams in the form of indiscriminate transfer of manpower and material resources and never repaid, were given to the villages in proportion to their present population and land conditions. 2. Shares totaling 164,500 yuan, the amount of state support in the form of tax exemption and capital investment, were given to all the people of the township. 3. Shares totaling 42,000 yuan, invested by workers and staff members, belong to the investors. 4. New assets created by the enterprises over the years totaling 376,000 yuan were divided by a 3:4:3 ratio into individual shares for workers and staff members, collective shares for the enterprises, and public shares for the township's peasants. The individual shares for workers and staff members were determined according to each individual's length of service and contribution to the enterprise. Calculated according to the above guidelines, the results were: public shares for the township's peasants, 213,800 yuan, or 31.7 percent, managed by the joint stock company on their behalf; village shares, 92,000 yuan, or 13.64 percent; collective shares for the enterprises, 213,900 yuan, or 31.71 percent; and individual shares for workers and staff members, 154,800 yuan, or 22.95 percent. After the shares were divided, the joint stock company issued "share certificates" to each shareholder. Thus, the "government-run" enterprises became independent enterprises, returning both profit and control to the people.

Workers and staff members who are given shares out of the enterprises' accumulations over the years may not further divide the shares, take the shares elsewhere, transfer the ownership to others, or pass the shares on to heirs. Only they themselves can receive dividends on these shares till their retirement, departure, or death. Those who leave for other jobs with the organization's approval may continue to receive dividends for 3 to 5 years. Those who leave by themselves or are asked to leave will stop receiving dividends from the day of their departure.

Workers and staff members who make investments in the enterprises do so of their own free will, are free to withdraw their investments, and may transfer their shares or pass them on to their heirs as they wish.

The enterprises have the right to distribute as they see fit all the profits they have realized (after paying "surtax" to the township government). Profit is distributed according to a 4:1:1:4 ratio. 1. Forty percent goes into the fund for expanded reproduction, used mainly for the enterprises to expand reproduction or to repay debts. 2. Ten percent goes into the industrial support for agriculture fund, used mainly as subsidies to workers and staff members of each enterprise, who have contracted their farmland to others, to help them pay the difference in grain and nonstaple food prices, and as funds set aside for public use. 3. Ten percent goes into the collective welfare fund. 4. Forty percent is used to pay dividends, distributed equally, reasonably, and in proportion to the number of shares. However, dividend payment may not exceed 15 percent of the shares' value. The excess part goes into the collective welfare fund, or is used to pay additional bonuses to workers and staff members for work, or is used to buy additional shares for workers and staff members.

With regard to the use of dividends, the joint stock company, the board of directors, shareholders' councils and congresses of workers and staff members have given clear-cut instructions: Dividends for workers and staff members are at the disposal of the individual workers and staff members; dividends for the enterprises are used mainly to pay bonuses (or cash awards) to workers and staff members for their work, and a part may also be used to supplement the collective welfare fund; dividends for the villages are used mainly as industry's support to agriculture and to meet expenditures in setting up new enterprises; and dividends for the township's public shares are used mainly for expanded reproduction, as industry's support to agriculture, and for collective welfare of workers and staff members of township enterprises.

These rules cannot be put into effect without a democratically elected, authoritative management organization. Therefore, the establishment and perfection of such an organization is of vital importance to the implementation of the township enterprise share system. The shareholders of township enterprises in Pingluo democratically elected 35 representatives, who formed the board of directors of the Pingluo Township Enterprise Joint Stock Co. The board of directors elected a chairman, two vice chairmen and a secretary general. The secretary general is responsible specifically for the board's day-to-day work. (The various township enterprises also set up appropriate shareholders' councils or congresses of workers and staff members.) The board of directors is the democratic management and leading organization of the joint stock company. Its major duties are to examine and formulate the production plans, operational policies, and distribution procedures for the joint stock company and the enterprises on behalf of all the shareholders, including the public shares of the township's peasants, the village shares, the enterprise shares, and the shares of workers and staff members, to draw up the bylaws of the joint stock company and the board of directors, and to determine shareholders' rights and obligations.



## Further Changes Following Implementation of the Share System

From the experience of the past 2 years and more in reforming the township enterprises with the introduction of the share system, people have come to see the obvious results the share system has produced in developing production, consolidating the collective economy, and improving the peasants' living standard.

1. It has consolidated and developed the collective economy. The implementation of the share system has not changed the nature of collective ownership. It is a change from the original collective ownership system to a combined collective and individual share system (a share system developed on the basis of collective ownership). Workers and staff members, who were mere laborers before, are now both laborers and shareholders. The former system of distribution according to work only has changed to the present distribution system based on both work and shares. A concrete relationship has developed between the individual and the collective owners. The masses of workers and staff members of the enterprises have changed their attitude as hired hands and have consciously tied their personal interests and future to the performance and growth of the enterprises.

2. It has restored "three rights" and "three characters" for the enterprises. The share system has broken the past centralized management system and restored "three rights" (the rights to property ownership, independent operations, and democratic management) and "three characters" (the mass character of organization, democratic character of management, and flexible character of operations) to the enterprises, enabling the enterprises to really become independent economic organizations with independent accounting and responsible for their own profits and losses. This has made it possible for the enterprises to use their powers to independently carry out internal reforms.

3. It has strengthened lateral associations between enterprises. The Pingluo Supply and Marketing Co., taking advantage of its sales and marketing operations in other places, has set up a packing and packaging plant jointly with the local Yuwang Village Distillery, combining production with marketing, and profits are split fifty-fifty. They have also bought and marketed more than 700,000 jin of daqu liquor from 33 small distilleries run by nearby villages, production teams, and households. In addition, they have entered into production-marketing cooperation with the Yanan Limin Woolen Mill, with sales totaling more than 2 million yuan, and received 330,000 yuan from the latter to offset their investment in plant and equipment. The Pingluo Tea Plantation, which had been losing money year after year due to poor management, formed a partnership with the Qilongshan Distillery last year. When the tea plantation is short of workers during busy seasons, the distillery sends men over to help pick tea, and during slack seasons, the tea plantation sends its workers to the distillery to help with the bottling, solving the distillery's manpower shortage during peak production periods. The distillery supplies the tea plantation with waste distillers' grains for feed, and its purchasing and sales personnel now sell both liquor and tea. As a result, the tea plantation is now making a profit.

4. The enterprises' economic performance has improved. According to statistics for January through May 1986, the 14 Pingluo enterprises which had adopted the share system registered a total output value of 1,573,300 yuan, a 46.6-percent increase over the same period in 1985, and profits totaling 148,300 yuan, a 0.77-percent increase over the same period in 1985. An agricultural machinery plant, which had operated at a loss year after year, began to show a profit in 1985. In January through May 1986, the plant registered a 114.6-percent increase in output value and a 220.45-percent increase in profit over the same period in 1985. In the past 2 years, the town's collectives and individuals raised more than 4.4 million yuan to carry out more than 30 projects, increasing more than 8 million yuan in new production capacity.

5. State, collective, and individual incomes have all increased. The implementation of the share system has markedly improved the enterprises' economic performance, resulting in increased state tax revenue, collective accumulation, and individual income. Pingluo's revenues totaled more than 510,000 yuan in 1985, up more than 25 percent over 1984, including more than 80,000 yuan in increased industrial and commercial taxes. Because the town's government had overfulfilled its 1985 financial and tax revenue targets, it was able to retain a share of 74,600 yuan from the year's revenue surplus, 3.93 times the 19,000 yuan in 1984. Enterprises paid a total of 63,000 yuan in "surtax" to the town government in 1985, including 39,000 yuan paid by the 14 township enterprises, which was 7,000 yuan more than what they paid as apportionments in 1984 when they were still "government-run." After paying taxes and fees, the enterprises retained 150,000 yuan from their profits, an increase of 33,600 yuan, or 29 percent, over that in 1984. Their workers and staff members received 15,300 yuan in dividends, averaging 40.26 yuan per person, in addition to increased wages and bonuses.

#### Problems Which Merit Attention

The reform of township enterprises and implementation of the share system are still in the early stage in Qionglai County. There is not enough experience, development is uneven, and the work is far from perfect. A few cadres in some town and township governments, in particular, are concerned only with immediate interests and personal gain or loss, afraid that they may lose their benefits, power, and control. Therefore, the implementation of the share system is faced with many new problems and new situations. These new problems and situations should be taken seriously and studied.

1. It is necessary to establish and perfect a democratic management organization for enterprises. The share system is based on shareholders, mainly workers and staff members of the enterprises. The democratic management, leading, and policymaking organization, the board of directors, is formed by democratic election. Major decisions must be made by the board of directors or shareholders council, and the town and township governments must not directly interfere with any of the board's affairs. The board of directors must have some authority. Its principal leading members should have the moral character

to adhere to principle and act impartially. Without a sound and effective democratic management organization, any reform plan, however good it may be is merely a piece of paper.

2. Is it necessary to control the proportion of public shares? There are two opinions. One opinion is that it is necessary to have public shares, but their proportion should not be too large, generally no more than one-third. The other opinion is, it is not necessary to demand uniformity in all cases, and whether or not to have public shares should be determined according to the actual conditions.

3. Should new shares be issued on the enterprises' accumulation each year? How? I think that new shares should be issued. After the implementation of the share system, the enterprises' production will increase rapidly, and new accumulation will keep growing. By issuing new shares on accumulation, the total number of shares will grow larger and larger, and the income of workers and staff members will increase at the same time. When there is a direct link between increased accumulation and higher income, the workers and staff members will no doubt be motivated to increase production, as higher output will increase accumulation.

The question is how. Comrades of Qionglai County think that it is more suitable for enterprises which have adopted the share system to issue new shares on accumulation every 3 years. (The Linqiong Shoe Tree Plant issues new shares on accumulation every 2 years.) Thirty percent of new accumulation can be divided into shares and issued to current workers to length of service, contribution, and other conditions.

Some comrades hold that the issuance of new shares should not be based on accumulation of assets alone, and that the share system should be developed in different ways and forms. For example, one can become a shareholder by buying assets for the enterprise, investing one's own capital, or buying shares.

Others feel that in implementing the share system, the emphasis should be placed on helping the workers and staff members acquire shares through various channels. This is because the workers and staff members are the laborers and operators of enterprises, and making them shareholders will have a decisive impact on increasing the enterprises' vigor and vitality. Therefore, not only the "government-run" enterprises should periodically divide the assets they accumulate year after year into shares and issue them to their current workers. The enterprises, which are partnerships with hired laborers, should also issue shares on a specific proportion of their accumulations to their current workers from time to time.

4. Is it necessary and possible to establish a retirement and insurance system for township enterprise workers and staff members? It is not enough to pay attention only to inspiring the sense of responsibility of workers and

Staff members. We must recognize that the township enterprises are not as secure as the state enterprises. Therefore, it is necessary and possible to properly solve the retirement and insurance problems for the township enterprise workers and staff members. The Pingluo Agricultural, Industrial and Commercial Co. solves the problem by setting aside a specific proportion of the collective welfare fund and withholding a part of employees' wages, and retired workers and staff members receive annuities and other benefits according to their length of service and whether their farmland has been contracted to others. Whether this method is practical, and whether there are better ways, should be carefully studied.

12802/12851

CSO: 4006/473



## AGRICULTURE

### RURAL ECONOMIC JUDICIAL MEASURES URGED

HK031001 Beijing NONGMIN RIBAO in Chinese 20 Feb 87 p 3

[Article by Xiao Xwen (2556 3306) of Qingzhou City, Shandong; party committee: "It Is Urgently Necessary to Step Up Economic Judicial Measures in the Rural Areas"]

[Text] Over the past few years, along with the continuous development of the rural reform, the economic situation in the rural areas has been more gratifying with each passing day. However, many cadres and many of the masses know nothing about law and management, and have acted rashly and blindly in economic activities, resulting in a large number of disputes and cases and a trend of an increasing number of such disputes and cases. According to an investigation in the rural areas of a city, in 1 year alone, the economic tribunal of the city court handled some 220 rural economic dispute cases, more than the total in the 4 years from 1980 to 1984. This has seriously jeopardized the development of the rural economy. Facts indicate that it is urgently necessary to step up economic judicial measures in the rural areas.

As seen from the current situation, the stress of improving economic judicial work should be laid on the following three fields:

1. On the execution of economic contracts. The number of economic contracts of various types in the rural areas has been increasing over the past few years, involving almost every village, production team, and household. In the meantime, there have been many disputes in the execution of the contracts. For example, a certain village signed 410 economic contracts of various types, of which 360 involved disputes, to the detriment of normal agricultural, forestry, and sideline production in the village. As another example, a village-run enterprise, due to various reasons, ran into loan disputes with more than 100 sales agents and households, involving as much as over 500,000 yuan. As a result of serious difficulty regarding funds, the enterprise had no alternative but to stop production and bring lawsuits against the agents and households.
2. On accumulation and retention of money. Since the implementation of the contract system of responsibility linked to production on a household basis in China's areas, most villages have adopted the method of drawing money from individuals to meet the grain funds needed in the building of

irrigation projects, roads, houses, schools, and electricity facilities by collectives and the allowances to village cadres and people-run school teachers, except for a handful of villages with industrial and sideline production where collectives can bear the expenses. Peasants are willing to provide various retention funds provided that they are properly used, the amounts are reasonable, and the accounts regarding the funds are open to the public. However, many areas fail to achieve this. They draw and retain funds from too many items and the amounts of retained funds are too large, far exceeding the peasants' ability. Due to these and other reasons, such as accounts not being in order and cadres' bad style, peasants resent retention funds and refuse to pay.

3. On rural construction. Over the past few years, many areas, plains areas in particular, have started large-scale rural construction, improved living, environmental, and sanitary conditions in the rural areas, and built new socialist rural areas. This is, of course, a good thing. But many areas have failed to set unified regulations and formulated strict management measures in the areas of construction standards, occupation of land, designation of housing areas, and organizational arrangements, and many disputes have appeared, directly hampering the smooth progress of rural construction. According to an investigation in a village, of the 210 households in the village, 191 were involved in planning disputes, accounting for 91 percent of the total number of households in the village. Of the 13 streets planned by the village, 9 were impassable. Broken walls and ruined curbs could be found everywhere in the village.

The above three problems are acknowledged by all areas as the "three big troubles in the rural areas," which are really worrisome and tough. Therefore, cadres and masses, including leading comrades of township and town party committees and governments, all eagerly hope that judicial organs will adopt the method of stepping up economic judicial measures to solve the problems as soon as possible.

/9604

CSO: 4006/564

## AGRICULTURE

### JIANGXI GOVERNOR ADDRESSES PROVINCIAL FARMING MEETING

OW140346 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 11 Apr 87

[Excerpts] The provincial party committee and the provincial people's government held a telephone conference on the evening of 10 April to discuss spring farming work. The meeting urged party and government leaders, the masses of people, and cadres throughout the province to act immediately to win the first battle of spring farming to wrest a comprehensive bumper harvest this year.

The meeting was presided over by Wu Guanzheng, deputy secretary of the provincial party committee and governor of Jiangxi. Jiang Zhuping, member of the standing committee of the provincial party committee and vice governor of Jiangxi, and (Yu Zhaolin), advisor to the provincial people's government, attended the meeting. Pei Dean, member of the standing committee of the provincial party committee and head of the provincial department of industry and agriculture, addressed the meeting on behalf of the provincial party committee and the provincial people's government.

He said: The present situation in spring farming in our province is generally good, but there are also a number of problems which should be given proper attention. The main problems are as follows: Since the first 10 days of March, there has been a lot of rain and low temperatures have returned to our province, seriously affecting the spring-ripening crops, fruit, and vegetables, especially spring planting and rice seedlings. In many localities, the rotting of rice and other seedlings has become a serious problem. Meanwhile, the number of live pigs in stock is declining, the number of sows decreasing, and the price of piglets falling. There is a shortage of vegetables, chemical fertilizers, diesel oil, and insecticide. Leading comrades at all levels should remain calm and quickly adopt effective measures. With confidence in themselves and high sense of responsibility, they should organize the masses and cadres to continue rural reform and fulfill the goal of increasing production and revenues and of catching up with the advanced, which the provincial party committee and the provincial government put forward.

All localities should do their best in the following tasks: 1) They should accomplish their sowing plans for early rice, cotton, and other economic crops while paying due attention to quality. All areas should step up

late-stage field management in order to ensure a bumper harvest of spring-ripening crops; 2) they should do a good job in developing livestock breeding and aquatic production. 3) They should strive to develop rural industry. 4) All localities should strive to wrest a bumper harvest this year by combating natural disasters. In short, they should be mentally prepared for potential natural disasters this year. 5) All areas should strengthen leadership over spring farming work.

In his speech, Governor Wu Guanzheng stressed that Comrade Pei Dean made his speech in accordance with the studies conducted by the provincial party committee and the provincial government. All localities should earnestly implement his speech in the light of local conditions. As the sowing plans for grain, cotton, sugarcane, and other economic crops have been assigned, all localities should strive to fulfill their assignments, while paying attention to quality. The abnormal climate this year has created unfavorable conditions for spring farming and spring-ripening crops. He said: I hope party and government leaders at all levels will organize the masses to do a good job in spring farming by overcoming difficulties. Provincial and city departments concerned should organize personnel to visit grassroots units, conduct investigations, and help peasants overcome difficulties and rest a bumper harvest this year.

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## AGRICULTURE

### BUMPER CORN HARVEST REPORTED IN JILIN

Changchun JILIN RIBAO in Chinese 25 Jan 87 pp 1, 4

[Article by JILIN RIBAO staff reporter: "In Overcoming Severe Natural Disasters We Cannot Depart From Party Guidance: Bumper Harvests Are In on 13 Corn Exporting Bases in Jilin"]

[Text] I have learned from the relevant departments that in 1986 corn exporting bases in 13 Jilin counties (and cities)--Yushu, Nongan, Dehui, Gongzhuling, Lishu, Fuyu, Jiutai, Shuangyang, Yongji, Yitong, Dongliao, and Changling--overcame severe natural disasters and joyfully reaped bumper harvests. The total grain yield reached 9.74 million tons, up 25.7 percent over 1985 and 150 percent higher than average growth in the province.

In the aftermath of the disastrous floods of 1985, in 1986 these 13 counties (and cities) were hit with further severe flooding, low temperatures, and other natural disasters. Under the guidance of the provincial party committee and provincial government, cadres and masses at all levels in these 13 counties (and cities) spared no effort in combating the disasters, sending disaster relief, and striving for a bumper harvest. As a result a higher yield and an increased harvest was wrested from each county. As I understand it, Gongzhuling, Fuyu, Changling, and Yushu all raised output more than 40 percent: production was up 62.3 percent, 51.2 percent, 50.9 percent, and 44.7 percent, respectively, over 1985. The corn yield in the 13 counties (and cities) measured 7.72 million tons, for an increase of 35.7 percent over 1985.

Grain procurement and corn exporting made rapid progress. Statistics up to 10 January indicate that grain procurement in these 13 counties (and cities) totalled 4.15 million tons, up 33.2 percent over 1985, and corn exports totalled 2.51 million tons, up 31.6 percent over 1985. The primary reasons for bumper harvests in these 13 counties (and cities) in a year of severe disasters are as follows:

--They conscientiously acted in the spirit of the CPC Central Committee's 1986 Circular No 1 and the Rural Work Conference. They placed grain production in its proper place among other rural work and carried out every party policy.

--During the Sixth 5-Year Plan six commodity grain base counties (and cities) initially constructed through joint state and local investment exercised a

role. Construction on basic agricultural and water conservancy facilities was enhanced and their capacity to resist natural disasters was improved to a certain extent.

--All levels of leadership emphasized the construction of commodity grain bases and made corn exporting bases the order of the day. Each county (and city) established a leadership group for commodity grain base construction and set up specialized teams to handle commodity grain production.

--In 1986 the joint state and local investment to construct corn exporting bases aroused county and township initiative. Even though the state's investment was late in coming, by the end of the year 90 percent of the construction investment had been accumulated. These investments were primarily used in the agriculture and technology extension system, in small-scale water conservancy construction on farmland, and in the agricultural mechanization management and service system.

--Improved seed and improved methods--high-yield seriation cultivation and seed--as well as advanced agricultural science and technology such as standardization, fertilizer application based on soil surveys, mulching, and biological disease and insect prevention were disseminated on a large scale.

--All trades and industries integrated management and provided satisfactory services. Policies were implemented which allowed grain procurement to be profitable for counties and townships. After contract procurement assignments were fulfilled the grain market was completely opened up, and this accelerated the grain procurement and corn export schedules.

12510  
CSO: 4006/357

STATE OF VEGETABLE PRODUCTION IN JIANGSU

Nanjing XINHUA RIBAO in Chinese 24 Dec 86 p 2

[Article by Zhu Xinhua [2612 2450 5478]: "Causes for Satisfaction and Concern in the Vegetable Situation"]

[Text] This year, from northern to southern Jiangsu, in cities, county towns, and market towns alike, there are ample supplies of vegetables in a profusion of varieties, quality is improved, and prices are stable. According to Jiangsu Vegetable Corporation statistics, from January through November the 13 state-run vegetable companies in Jiangsu purchased 469 million kg of locally produced vegetables, up 55.8 percent over the same period of 1985, and sold 519 million kg of vegetables (including 50 million kg transferred out of Jiangsu), up 50 percent over the same period of 1985. The average procurement price for the major varieties was 10.52 yuan per 50 kg and the retail price was 13.87 yuan per 50 kg--both prices slightly lower than those for the same period of 1985.

On the afternoons of 15 and 16 December 1986, I went to produce markets at the head of Xin Street and on Tongren Street in Nanjing, and on the vegetable counters at these two produce markets alone I saw red vegetables (radishes, carrots, and onions), green vegetables (Chinese cabbage, celery, spinach...), yellow vegetables (hotbed chives), white vegetables (cauliflower and lotus root), and black vegetables (water chestnuts and taro seed) arranged in order. I also observed the list prices, as follows: Nicely processed Chinese cabbage cost 1 jiao 3 fen per kg, tightly packaged vegetables cost 1 jiao 1 fen per kg, spinach cost 3 jiao per kg, celery cost 2 jiao per kg, cauliflower and onions cost 7 jiao per kg, arrowhead cost 5 jiao 2 fen per kg, and Chinese yams cost 8 jiao per kg.... There were 20 varieties or so, and anyone could purchase them freely as they pleased. One elderly woman who lives on Zhujiang Road bought a full basket of aijiao [4253 5183] yellow and green vegetables at the Tongren Street Market. She happily told me that "These vegetables are just as good and the same price as at the farmers' market. This year we are eating cheap vegetables."

What is the vegetable situation in other cities? Assistant Manager Li Xinyao [2621 1800 5069] of the Jiangsu Vegetable Corporation, who has just returned from a business trip to Yangzhou, Xuzhou, Wuxi, Changshu, and Zhangjiagang, answered frankly: "The situation is just as good--vegetable counters are full

everywhere." He told me that in the past some residents of county towns had a hard time getting enough produce to eat, and vegetables had to be shipped back from the cities. This year many county towns have an excellent variety of produce and supplies have improved. This manager, who worked hard on the vegetable situation right up to the end of the year, happily said that, aside from the objective factor of favorable weather, the subjective factor leading to a relatively good situation at vegetable markets this year was a great deal of hard work. This year, leadership over vegetable production efforts has been intensified from the provincial government on down to the various cities. People at all levels throughout Jiangsu are being held responsible. There are special, full-time groups taking control of stabilizing and building on vegetable land, as well as implementing the relevant series of reform measures and economic policies to stabilize and support vegetable production. At the same time, the state has given a great deal of financial aid to support the growth of vegetable production. According to initial statistics, subsidies for all aspects of vegetable production total 120 million yuan. It is precisely for these reasons that city dwellers are guaranteed inexpensive vegetables.

When vegetables are plentiful and prices stable, city dwellers are happy. However, amidst the general acclamation, I heard another reaction: Vegetables are too plentiful this year, particularly popular goods of dependable quality. We cannot sell them all and vegetables are beginning to spoil and be dumped. Losses and waste are rampant. Wang Guozhu [3769 0948 2691], director of the market at the head of Xin Street, told me that the reform of the procurement and marketing system in Nanjing to integrate contract procurement with price negotiation on transactions--the "60 percent quota and 40 percent negotiation" system--is a good format. However, because the varieties included under the "60 percent quota" portion are generally the major varieties, such as greens, radishes, Chinese cabbage, and packaged vegetables, the corporation decided that the market must bring in 24,000 kg per day, although in reality it can only sell 10,000 kg. Assistant Director Gu Ying [7357 5391] said: "The masses have an improved standard of living, and consumption patterns have changed. People don't relish eating coarse vegetables now, and there are fewer families buying pickled vegetables. This year the market brought in 320,000 kg of pickled vegetables and xuecai [7185 5475], of which we only sold 157,000 kg. Much of it turned to garbage and some of it was taken away to feed to fish." The director of the Tongren Street Market, Wang Litao [3769 4409 3447] told me: "When people buy fish they want ones that jump, when they buy chickens they want ones that squawk, and when they buy vegetables they want ones that are fresh and tender. It would be nice if the produce farmers would grow more of the minor varieties and fewer of the popular ones." Nanjing Vegetable Company Manager Huang Wenpin [7806 2429 0756] set forth two accounts for me: This year in Nanjing we produced 18.5 million kg of pickled vegetables and xuecai, and in the end we actually sold 13.5 million kg and had a surplus of 5 million kg. We produced 28 million kg of Chinese cabbage, but only 5 to 6 million kg was needed on the market and the company stored 20 million kg. Based on previous situations, 1.8 million yuan should be lost on these two accounts, but through joint efforts we will actually lose only 1.25 million yuan this year.



The excess of popular goods not only creates waste, it has also increased the state's deficit subsidy. According to Jiangsu Vegetable Corporation statistics, from January to November 1986 the total subsidy applied to vegetable losses in 13 cities was 24.51 million yuan, up 44.69 percent over the same period of 1985. This is a problem that should be faced squarely. In 1985 we had no produce to eat; vegetables were brought in at high prices and went out at low prices, and the state had to provide subsidies. In 1986 we have an abundance of produce and the state subsidy is even higher. How are we to resolve this dilemma?

Some experts believe that vegetables are a special kind of commodity for which it is impossible to achieve a situation of no excess and no shortage. After vegetables were deregulated, in order to protect the interests of producers, businessmen, and consumers alike and guarantee market stability and social harmony, it was essential for the state to set aside a certain financial subsidy for vegetable production and regulate the relations between supply and demand. However, the subsidy had to be reasonable because the state's capacity to take on financial burdens is limited. Moreover, we cannot use "subsidies" to conceal corruption in the vegetable production and marketing system or encourage certain people who are resting on their laurels and eating out of "one big pot" at the expense of the state.

So, then, where does the way out lie? It lies in continued intensification of reform.

The vegetable business must be further deregulated and stimulated and reform measures must be further perfected and coordinated. Everybody realizes this. Nanjing Vegetable Bureau's Bureau Chief Wang Yongfa [3769 3057 4099] said: "Vegetable deregulation is imperative, but we must have an especially steady approach because the process involves thousands upon thousands of producer and consumer households. Right now we must gradually deregulate the varieties and quantities involved in contract procurement and reduce the overall proportion of contract procurement." He told me that, based on the oversupply of popular items this year, they are preparing to make suitable reductions in the percentage of contract procurement in 1987. They are changing the "60 percent quota" to a "50 percent quota" and reducing the number of varieties stipulated for contract procurement from 15 to 11. Given stable quantities, we must vigorously develop new and year-round varieties, such as green cayenne pepper, tomatoes, cucumbers, kidney beans, and so forth. At the same time we must open up four wholesale markets to make possible "the two luodis [5507 0966]"--luodi procurement and luodi business deals--and enable a direct flow between production and marketing. This will reduce losses, expenses, and deficits and alleviate the state's burden.

While I was covering this story, some comrades who have long been engaged in the vegetable business repeatedly emphasized that we must keep a clear head this year as everyone clamors about the "abundance" of vegetables. They feel that no matter what reforms are effected, conscientious production is job one. It is the material foundation for ensuring supplies and stabilizing produce prices. We must understand the market and the people's needs, and we must determine quantities and arrange production in the light of ever-changing patterns of consumption. Only in this way can we fundamentally resolve major

and minor problems and ensure that producers, businessmen, and consumers all profit. And only in this way can the state reduce deficit subsidization and use that money to construct vegetable facilities, improve the levels of mechanized vegetable cultivation and fresh vegetable storage, enhance our ability to withstand natural disasters, and achieve a beneficial cycle in the vegetable business.

12510

CSO: 4006/357

## AGRICULTURE

### BRIEFS

**PEASANTS URGED TO INVEST**--Vice Governor Guo Yuhuai said at a recent seminar on economic development strategy for Yuncheng Prefecture that it is necessary to guide the peasants to undertake rational investment and go in for expanded reproduction, to boost the reserve strength of agriculture. At present, the peasants of the province have an average of 164 yuan on deposit. When bonds are added, the figure exceeds 200 yuan. However, many peasants have invested very little in expanding reproduction. We must pay attention to this matter. We must look into the policies, promote reforms of the financial system, and allow the peasants to set up non-governmental credit organizations. The credit cooperatives can also issue shares. We should guide the peasants to practice rational consumption and increase investment in production. In this way the scattered capital can be concentrated, short-term capital can be made long term, and consumption capital can be switched to production. [Text] [Taiyuan Shanxi Provincial Service in Mandarin 2200 GMT 19 Apr 87] /9604

CSO: 4006/564

## CONSTRUCTION

### RAPID PROGRESS REPORTED ON KEY ZHEJIANG PROJECTS

Hangzhou ZHEJIANG RIBAO in Chinese 2 Feb 87 p 1

[Unattributed Article: "Rapid Progress and Saved Investment on Zhejiang's Priority Construction Projects; Widespread Use of Such Reform Measures as Investment Assignments and Public Tenders; Last Year's Investments Reach Historic Levels; Average Investment Savings on Nine Projects Checked and Accepted Surpasses 5 Percent"]

[Text] In the first year of the Seventh 5-Year Plan, welcome advances occurred in Zhejiang's priority construction projects. According to statistics, 43 priority projects were completed with an investment of 1,011,000,000 yuan--up 39.4 percent from the previous year--to reach historic new levels. Of these, five national priority projects have already reached their planned investment for the year. Eleven projects slated to go online were either fully online or in experimental states, with rather favorable economic returns.

In recent years, surrounding such developments in Zhejiang's priority construction projects as shortened construction term, lowered construction costs, improved quality, and enhanced returns have been reforms in management systems. Last year, out of 33 priority projects throughout the province, 26 implemented a system of investment assignment responsibilities as a change from the "accounting for what's used and using what's on the books" of the past. Unrestricted lines of credit were changed over to meticulous accounting methods, which resulted in controls over estimated construction budgets. Investment was conserved to some extent, and quality and construction terms were adhered to as construction progressed. An examination of nine construction projects examined and accepted last year at the Zhenhai Main Petrochemical Factory fertilizer site show an average savings above 5 percent of investment. In just the Suichang metals mining, Beilun railway, Taizhou generating stage two, regional merchandise wharves at Ningbo and Zhenhai, Zhejiang polyester fiber, and Zhenhai generating stage two projects alone, the amount of investment conserved amounted to 32 million yuan. Once investment assignments were inaugurated on certain construction projects which were exceeding budget, changes occurred right away. For example, the Cangnan Pier Reservoir, which in the 4 years prior to 1986 had "eaten at the big bowl," was 600,000 yuan over budget. Once the investment assignment responsibility



system was inaugurated last year, a series of measures were undertaken in house which saved over 300,000 yuan in the same year.

Implementation of public bidding in construction has already become a reform measure on priority projects. Various construction units have adopted open bids, invited bids, and negotiated bids and selected the best of the bidding units with outstanding results in reducing construction costs, maintaining quality, and shortening construction time. Last year, public bidding was implemented on 10 newly begun priority projects such as the China Rice Research Institute, Zhejiang People's Hospital, Wenzhou Longwan Wharf, Wenzhou Airport, and Changxing cement project stage two. As soon as construction started, returns were good. The provincial electric power system has just compiled budget estimates which show that implementation of public bids on construction projects can lead to a saving of investment of around 10 percent. There were eight construction companies who submitted bids on the second-stage expansion of ash dump No 5 at the already constructed "Taidian" plant. A total of 1 million yuan of investment was conserved on just the interior and exterior of the dike alone.

Reform has accelerated the pace of priority construction. The number of priority construction projects which have been completed and gone online in a timely fashion has created a favorable material base for Zhejiang's economic takeoff. Electric transformer lines newly added in 1986 come to 226 km with transformer capacity of 330,000 kilovolts-amps and 200,000 MW of generating equipment. Increased dockage capacity totals 1.4 million tons. Newly added mining capacity amounts to 300 tons per day. newly constructed highway bridges amount to 496 meters, while high efficiency utility rooms [7559 2699 3938 2075] amounted to 17,000 square meters.

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CSO:4006/471

## TRANSPORTATION

### REGULATIONS ON HIGHWAY TRANSPORTATION MANAGEMENT

Beijing ZHONGGUO JIAOTONG BAO in Chinese 7 Feb 87 p 2

[Regulations: "Provisional Regulations on Highway Transport Management (Issued 29 December 1986 by the Ministry of Communications and the State Economic Commission)"]

[Text] Chapter I: Guiding Principles

Article 1: These regulations have been formulated to strengthen highway transport management, protect legitimate business, ensure the legitimate rights of owners of cargo and passengers, preserve transportation order, promote development of the highway transportation industry, bring about better circulation of goods, facilitate movement of persons, and improve social benefits.

Article 2. All matters pertaining to highway transportation of cargo or passengers, shipping and loading, automobile repair, or transportation services (hereinafter called highway transport), is within the purview of highway transport industry management.

Article 3. All units and persons engaged in highway transport must obey relevant state laws, orders, and regulations, and the highway transport rules announced by transportation authorities.

Article 4. Under the leadership of state planning, highway transport shall carry out the policy of multiple operations by various regions, various sectors, and various departments. It shall uphold the coordinated development of the various state-run, collective, and individual economic entities, and ensure normal competition.

Article 5. Highway transport shall be divided into business and non-business highway transport. Business transport refers to highway transport which provides service to society and entail various forms of cost accounting. Non-business transport refers to the production and daily living services of highway units which do not entail cost accounting.

Article 6. All levels of s transportation departments shall be administrative management agencies of highway transport of the various levels of the people's

government, and shall be responsible for the conscientious implementation of these regulations.

## Chapter II: Management of Starting Up and Ceasing Business

Article 7. Units and individuals (including joint households here and subsequently) applying to engage in the business of highway transport services must perform the following procedures before starting up business:

1. Carry documentation of the local village or higher level documentation of the people's government, and file with government bodies at the county level or higher level transportation departments for an examination of technical qualifications to engage in business;

2. The transportation department shall issue its opinion, based upon the needs of the community and its production capabilities, scope of business, and technical and business conditions, within 30 days. Those meeting qualifications shall be issued proof of permission to operate;

3. Applicants holding business permits from the transportation department shall apply for registration with the industrial and commercial administrative management department, which shall conduct an examination pursuant to relevant regulations and issue an operating license;

4. They shall apply for a tax registration and to an insurance company for an insurance policy respectively, in accordance with state regulations;

5. Units and individuals (referring to units and individuals engaged in non-business transport temporarily shifting to business transport) who are engaging in business highway transport temporarily (less than 3 months), with the approval of the county or higher level transportation department, shall be issued temporary operating certificates, and may operate.

Article 8. Highway transport enterprises and individual transport households approved for business by industrial and commercial administrative management departments, and units and individuals temporarily engaged in business transport, shall be issued a transport operation certificate, based upon the number of vehicles it has registered, one certificate per vehicle, which shall be carried in the vehicle and recognized throughout the country.

Article 9. Units and individuals engaged in business transport ceasing business shall 30 days prior thereto submit notification to the responsible transportation and industrial and commercial administrative management departments. After examination and assent, and upon surrender and cancellation of the transport certificate and operating license, be permitted to cease operation.

Article 10. Highway transport units and individuals already in business prior to the promulgation of these regulations shall all carry out the procedures listed in regulations 7 and 8 at transportation departments.

### Chapter III: Cargo Transport Management

Article 11. With leadership of state planning and ensuring fulfillment of command transport quotas accepted as preconditions, units engaged in business transport have autonomy to independently engage in operating activities.

Article 12. Non-business transport vehicles of enterprises and institutional units are primarily for production and daily living activities of those units; where surplus transport capacity exists for business transport, the provisions of regulation 7 shall be followed.

Article 13. Where critical transport tasks such as emergencies, fire-fighting, or strategic uses have been set forth by county or higher people's governments, all transport units shall abide by centralized dispatch, take responsibility for transport tasks, and ensure that tasks are completed.

Article 14. Priority port, [4541 7162 2414] materials, priority materials, and regularly scheduled goods shipment transport, as approved by provincial (hereinafter including autonomous region and municipality under direct control of the central government) people's governments, led by local governments and assisted by relevant departments, in coordination with local transportation departments, shall carry out reasonable transport.

Article 15. Except for transport of goods specified in regulations 13 and 14, cargo transport shall abide by the principle that whoever takes consignment on the goods shall ship them. The Consignor may select the best consignment. No unit or individual shall for any reason whatsoever close off regions or sectors, monopolize sources of goods, or engage in deceptive practices, diversion or theft of goods.

Article 16. Where shipment of goods is prohibited or limited by state or provincial people's government regulation, procedures must accord with regulations before shipment will be permitted.

Shipment of hazardous goods shall be in accordance with the "Rules for Highway Shipment of Hazardous Goods".

Article 17. The consignor and consignee of goods for highway transport shall enter a shipping contract in accordance with the "Economic Contract Law of the PRC" and the "Implementing Regulations for Contracts for the Highway Shipment of Goods" and implement responsibility for transport.

Article 18. Superior transportation departments shall actively guide and organize all highway transport enterprises, based upon the principles of free will, equality, and mutual benefit, and shall strengthen lateral connections, develop reasonable transport, match loads, reduce empty trips, and conserve energy sources.

### Chapter IV. Common Carriers

Article 19. All highway transport enterprises and individual transport households operating passenger transport lines or regions shall individually



report such to county or higher responsible transportation departments for examination and approval, in accordance with the principle of management by level.

Article 20. Passenger (tourist) routes, stations, and schedules shall be comprehensively arranged by responsible transportation departments. Urban operating routes and station facilities shall be examined and set by the association of the responsible transportation department and relevant departments.

Article 21. All passenger vehicles for use by enterprises and institutional units wishing to engage in the business of a common carrier shall abide by the procedures of regulation 17.

Article 22. All vehicles engaged as highway common carriers shall display a sign front and back designating the operating route or region, and shall display within the passenger compartment a schedule of ticket prices for the areas it covers.

Article 23. Approval of passenger lines for common carrier (tourist) services shall generally not be for less than 3 months. Services may not be terminated without approval; nor may number of trips be reduced, or stops, routes, or areas of service changed.

Article 24. Highway transport enterprises and individual transport households operation highway common carriers on the same routes shall as needed centralize their schedules. No unit or individual shall employ improper methods to impede the carrying of passengers or interfere or infringe upon the normal operating activities of others.

Article 25. The use of tractors in the operation of a highway common carrier is strictly prohibited.

#### Chapter V: Management of Transport at Provincial Borders

Article 26. Regional barriers should be broken. As necessary, interprovincial transport shall be developed for the convenience of passengers and owners of goods.

Article 27. Interprovincial highway common carrier (tourist) service and cargo service shall follow the principles of equality and mutual benefit in common operations. Both party transport enterprises shall sign agreements. Operation may begin upon assent of the parties' responsible provincial level transportation departments. If one party's transport capacity is inadequate or for other reason is temporarily unable to engage in operations, it shall allow the other party to go ahead with its operations.

Article 28. Interprovincial goods shippers covered within the scope of regulation 14 above shall, in accordance with the principles of equality, mutual benefit, and common operation, after consultations between the parties' responsible transportation departments, determine division of labor, organize the transport enterprises of the parties or other transport units to complete



tasks together. Any extra interprovincial shipment of goods shall be handled according to the principle that whoever takes consignment on the goods shall ship them.

#### Chapter VI: Management of Shipping and Loading

Article 29. All units and persons engaged in highway shipping and loading must carry out their business activities within the scope of those activities examined and approved by the local responsible transportation department. They shall respect operating procedures, uphold civilized production, and ensure that loading quality is maintained.

Article 30. Local loading enterprises responsible for shipping and loading from port facilities shall ensure that traffic through the port moves freely. They shall guarantee that command quotas for the transport and shipment of goods shall be fulfilled.

Article 31. Owners of cargo and consignee units are permitted to load and unload their own cargo. Any enterprise or institutional unit with its own loading capability which has business obligations which exceed its scope of operations shall bring itself into line with the local responsible transportation department's management of that sector.

#### Chapter VII: Management of Transport Services

Article 32. Transport services such as joint operations between State-run and collective enterprises and individuals for goods and passengers, consigned cargo transport of goods for shipment, replacement passenger service, packing of goods, warehousing, and holding cars for shipment shall be permitted; and the normal operating activities of such joint operations shall be protected.

Article 33. Operators of highway transport services shall make preparations for production funds, machinery and equipment, stations and storage facilities, and technical services consonant with and suitable for the scope of its operations and goals. It shall collect fees according to regulations. Transport enterprises may not set up other agencies to conduct business within its normal purview of business under the pretext of diversified operations to collect excess fees.

Article 34. The building of public passenger and freight facilities is encouraged and supported. Transport enterprises are encouraged to open their existing passenger and freight facilities to the community and provide services to transport units, individuals, owners of goods, and tourists. They should gradually create the proper conditions for the separation of management of such facilities from management of fleets of vehicles.

#### Chapter VIII. Management of Vehicle Repair Industry

Article 35. Enterprises and individual repair households operating auto repair (including auto maintenance and special repairs) businesses must have

the necessary repair and inspection equipment and tools of measurement up to state specifications. Auto repair enterprises shall have the necessary complement of technical personnel; and individual repair households shall employ qualified auto repair mechanics.

Article 36. Auto repair enterprises and individual auto repair households must strictly observe technical standards issued by the state Bureau of Standards as well as technical and repair quality standards formulated by responsible transportation departments. They must also meet the requirements for safety inspection standards set by motor vehicle control departments.

Article 37. Responsible transportation departments must uphold the principles of "planning, coordination, service, and supervision" in their management of the auto repair industry. They should promote lateral relationships within the industry, work toward professionalization of production, and bring about a coordinated development of all parts of the auto repair industry.

#### Chapter IX: Management of Transport Tools

Article 38. All levels of responsible transportation departments shall set up files for registration of motor vehicles, tractors, and human and animal powered vehicles respectively, engaged in highway transport of passengers and goods within their jurisdictions, and see that every vehicle is properly registered.

Article 39. All levels of responsible transportation departments shall conduct conscientious economic evaluations of the highway transport industry within its jurisdiction, and shall provide all necessary information, based upon the local transportation needs and supply of gasoline, concerning additional and replacement vehicles and their models and types throughout the industry to the relevant coordinating departments.

Article 40. Any units or individuals requiring purchase or replacement of vehicles shall, at such time as they report plans for needed models and quantities, make a copy of such a report available to the local responsible transportation department.

Article 41. All levels of responsible transportation departments shall strengthen transport organization and make reasonable inspection of gasoline use and supply standards for all types of motor vehicles. They shall organize for the popularization of innovative technology for gasoline conservation and at specific intervals provide statistical reports and data on the number, type, and gasoline consumption for all motor vehicles within its jurisdiction to petroleum supply departments. They shall coordinate with petroleum supply departments for supply of combustion fuels.

Article 42. All highway transport enterprises, units, and individuals must report relevant statistics on equipment, participating personnel, production capability, production costs, fuel consumption, and operating income to the local responsible transportation department.

## Chapter X: Management of Prices and Unit Vouchers

Article 43. All levels of responsible transportation departments shall formulate prices for highway transport and fee rates for shipping and loading, transport services, and vehicle repair within the purview of its authority in accordance with the relevant state price controls. After approval by materiel price departments, these prices shall be promulgated and implemented in the local jurisdiction.

Article 44. All units and individuals engaged in business highway transport must utilize standardized accounting vouchers and passenger tickets. Units violating this regulation will not be allowed to submit expenses and their banks will not transfer funds for them.

Article 45. All motor vehicles shall without exception use standardized driver route slips [6424 0830]. The driver route slip is the driving order, and shall record the trips taken by the vehicle and statistical data on transport carried out. It shall be filled out and used by the unit or individual owning the vehicle personally in accordance with regulation. The driver route slips for business transport vehicles shall not serve as items for inspection while a vehicle is under way.

Article 46. Forms for transport certificates for highway transport and standardized driver route slips shall be formulated by the Ministry of Transportation. All provincial, autonomous region, and autonomous municipality transportation departments shall arrange for their printing and management.

## Chapter XI: Collection and Use of Highway Transport Management Fees

Article 47. Highway transport management fees are those activity fees collected from their intended sources in accordance with state regulation and used by the highway transport industry for management and services. Responsibility for collection of highway transport management fees shall lie with the responsible transportation department where the vehicle is located and managed at each level of the department with a set amount for each fee. Fees shall be supervised and audited by finance departments and auditing agencies.

Article 48. Highway transport management fees shall be collected based upon the amount of business of the highway transport operator. Collection standards shall be enforced in accordance with the regulations of transportation document number 594 (1983). Where the amount of business is difficult to assess, an estimate of the annual receipts shall be made and prorated for monthly collection.

## Chapter XII: Supervision, Inspections, and Penalties

Article 49. Transport control management agencies at all levels of responsible transportation departments shall strengthen their supervision and

inspection of highway transport. Based upon management requirements, after approval by the provincial, autonomous region, or municipal people's government, transport control management agencies may participate in check stops jointly with public security organizations, and assume responsibility for supervision and inspection of passenger and freight commercial activities, transport licenses, transport territories, service quality, transport discipline, as well as cargo prices and ticket documentation.

Article 50. In cases of major dislocations of a commercial or quality nature which may occur in the course of highway transport, the individuals involved shall make a timely report of the cause, delineate responsibility, and resolve the problem through consultation. In case of a dispute, any party may, within the time limit for seeking damages, file for resolution through mediation by the local transport control agency.

Article 51. Units or individuals in violation of the relevant sections of these regulations may be given warnings, fined, or suffer revocation of their transport license respectively, depending upon the severity of the infraction. Where there has been an infraction of the criminal law, responsibility for the case shall be transferred to procuratorial departments for investigation of crimes.

Violations of regulations should in principle be handled by the transport control management agency where the vehicle is registered. If, in the course of investigation, it is discovered that vehicles registered elsewhere have violated these regulations, a notice of violation of regulations should normally be issued, which is then reported to the transport control management agency where the vehicle is registered for handling. Unauthorized seizure of vehicles and abuse of fines are strictly prohibited.

Article 52. Highway transport management personnel shall carry standardized badges and identification when carrying out their duties.

#### Chapter XIII: Appendix

Article 53. Further regulations shall be issued for methods of managing highway transport involving foreigners.

Article 54. Each province, autonomous region, and autonomous municipality may establish implementing regulations based upon these provisional regulations, and shall give record of such to transportation departments.

Article 55. Responsibility for interpretation of these regulations shall lie with the Ministry of Transportation of the PRC.

Article 56. These regulations shall take effect on the day they are announced.

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## TRANSPORTATION

### YUNNAN HIGHWAY CONSTRUCTION, REFORMS

Kunming YUNNAN RIBAO in Chinese 13 Mar 87 p 3

[Article by Chen Zuyun [7115 4371 0061]: "On Highway Construction and Reform in Yunnan"]

[Text] Yunnan has few railways and even fewer waterways. More than 80 percent of goods and materials are transported by highways. The importance of highways is self-evident. However, the existing highways cannot meet Yunnan's transport needs, seriously hampering the province's economic development. The following is an analysis of the main direction of Yunnan's highway construction and the reforms that need to be made, presented in the hope that it may attract more ideas and opinions.

Yunnan is one of the provinces with relatively large highway mileage. According to statistics toward the end of 1985, there are 72,581 km of highways in Yunnan of which 49,541 km are included in the national highway mileage, ranking fourth only after Sichuan, Guangdong, and Hunan. Yunnan has no first-grade highway, only 93 km of second-grade highways, 5,287 km of third-grade highways, 30,416 km of fourth-grade highways, and 36,885 km of substandard roads.

It is obvious that the major problem of Yunnan's highway system is that most of the roads are low grade or substandard and cannot provide efficient transportation. At present, the driving speed on Yunnan's main highways is only 30 to 40 km per hr, 20 to 30 km lower than the most economical speed of motor vehicles. The result is longer transport time, more fuel consumption, and higher transport costs. This is the present condition of Yunnan's highways.

From an analysis of the present condition of Yunnan's highways, we can see that by strengthening road maintenance and improving the existing roads, to increase their capacity and ability to withstand disasters and to raise driving speed on the main highways to a more economical level (more than 70 percent of Yunnan's highway transport is concentrated on the main highways), passenger and freight transport volume can be more than doubled without increasing the number of motor vehicles. The economic and social benefits of the highway system can be further enhanced, if a more rational distribution of roads is achieved by suitably connecting certain deadend roads and building a few new roads.

It must be stressed that more than 97 percent of the districts in the province are connected by roads, so the problem is not the lack of roads. The problem



is poor maintenance and failure to use the existing roads more efficiently. And, to improve the existing highways and connect the deadend roads, the province is faced with two major difficulties: lack of funds and an inapt system.

There is not enough money for building new roads or maintaining existing ones. Yunnan is a rather poor province, unable to invest a lot of money in road construction, and so many roads are urgently in need of improvement. Money is also short for road maintenance. Take the maintenance of Yunnan's 7,283 km of asphalt roads for example. Generally asphalt roads have a designed service life of 8 years. Owing to the lack of funds, the provincial highway bureau only arranged for the major and intermediate repairs of some 300 km in 1986. At this speed, it will take more than 20 years to have all the existing asphalt roads repaired once, far exceeding their designed service life. Funds are hardly available even for routine maintenance, let alone large-scale highway improvement.

The ineptitude of the present system is manifest in the overlapping administrative organizations, aging road maintenance crews, the heavy economic burden caused by an increasing number of retired personnel, irrational collection, management, and use of road maintenance revenues, and so on. Problems have piled up.

Can the problems be solved? Yes. But, the principal contradictions must be resolved first to clear the way for overall highway reform.

First, it is necessary to further streamline the administrative structure, delegate more power to the lower levels, and eliminate the overlapping administrative organizations. At present, Yunnan's highway construction is under the leadership of the provincial planning commission and the provincial economic commission. In addition, it is also controlled by a staff of about 100 in the provincial transport department and another of about 200 in the provincial highway bureau. This has resulted in overlapping authorities, endless shuttling of official papers, and low working efficiency. Units at the county and section levels and basic-level highway sections and teams do not have enough decisionmaking power and have to ask for instructions and submit reports over and over again, and they are bound to be passive in work. We must be determined to streamline and merge the overlapping organizations and invigorate the grassroots units by delegating more power to them.

Next, the lack of highway construction funds can be eased and even solved by adopting a number of different reform measures simultaneously. Funds earmarked for highway construction and improvement must be used judiciously. Investment should not be made blindly, but should be based on economic benefits expected. The principle of "having roads built and maintained by the local people and subsidized by the state" can be further applied to the construction and maintenance of the primary and secondary highways, combining the efforts of full-time roadbuilders with those of the masses, to cut down construction costs and insure quality. Several counties in Yuxi and Lijiang prefectures have already offered to take part in improving the main highways and to help solve the problems of land requisition and evacuation to reduce costs. Funds can be raised in a number of ways, and foreign capital should be used boldly to renovate some important highway bridges, and so on. As to the shortage in

road maintenance funds, there are three things that should be done. The first is to firmly enforce the stipulations of the relevant central documents and delegate the authority to collect, manage, and use road maintenance fees to the highway departments, thus to insure that the funds are used for their specific purposes and to avoid "losses." The second is to tap the potential capacities of the road maintenance forces. According to the provincial highway bureau's estimate, of the more than 30,000 road maintenance workers and staff members currently hired by the province, at least 10,000 are surplus. And, with the introduction of advanced technology and machinery and the further implementation of the responsibility system, the number of surplus personnel will continue to increase. The only way out is to adopt bold reform measures to combine road construction with maintenance, allowing the surplus personnel to take contract work or be hired elsewhere, and, at the same time, to develop lateral associations, engage in diversified undertakings, and organize construction workers to compete for work at home and abroad, so that the surplus personnel will be enabled to support themselves. To do this, rules and regulations must be changed, and appropriate measures must be adopted. The third is to increase technical personnel and strengthen quality control. Among the provincial highway bureau's nearly 40,000 employees, only 1 to 2 percent are college-educated, and only about 2 percent are engineers and technicians. Such a low ratio of professional people, plus the fact that their knowledge is getting obsolete, is hardly enough to improve engineering quality and management standard. Roadbuilders are constantly on the move and often have to work in remote areas. It is difficult to keep competent people on roadbuilding work for long. Therefore, it is suggested that in addition to strengthening ideological work, it is also necessary to improve the material remuneration for the intellectuals and engineering and technical personnel of the highway system.

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## TRANSPORTATION

### LOCOMOTIVE, ROLLING STOCK PRODUCTION TARGETS FOR 1987

Beijing RENMIN TIEDAO in Chinese 18 Jan 87 p 1

[Text] The national railway locomotive and rolling stock industry conference finished its work on 1987 plans on locomotives, rolling stock and components and came to a successful close at Qishuyan on 16 January.

The main theme of the conference was to study and implement the guidelines in the speech given by Minister Ding at the national railway transport conference, sum up and exchange experiences in winning initial victory in the campaign to speed up industrial growth, discuss measures to overcome difficulties in carrying out deepgoing reforms, and mobilize all the cadres, workers, and staff members of the locomotive and rolling stock industry system to uphold the four cardinal principles, carry forward the spirit of selfless devotion to the interests of the whole, work hard to increase output, implement the contract system, take the lead in both production and construction, and make new contributions to expanding railway transport capacity.

In 1987, the locomotive and rolling stock industry will fight simultaneously on two fronts. There are arduous tasks in production and in renovation and expansion. Production of diesel and electric locomotives and passenger cars will increase by more than 16 percent over the last year. Investment in capital construction will top the last year by 33.8 percent, a record since the founding of the People's Republic.

Comrade Zhang Xintai [1728 6580 3141] presided over the meeting and made a speech. After fully affirming the achievements of the locomotive and rolling stock industry in the first year since the railways adopted the contract system, he pointed out: If dedication was what enabled us to achieve initial success last year, we must continue to work with selfless devotion to achieve even greater success this year. Only by fostering a selfless spirit can we courageously forge ahead, surmount all difficulties, and win new victories!

Zhang Xintai pointed out: We must strive hard to improve product quality this year, and quality standards must be strictly enforced in the entire locomotive and rolling stock industry. If a major traffic accident occurs due to the failure of some parts, the unit that has produced them should be stripped of its title as a civilized unit. Only with determined effort will quality be improved. He called on the leadership at all levels to do solid work, instead of putting on

empty shows. From now on, all plants and institutes are forbidden to engage in showy activities such as celebrations, ceremonies, and ribbon-cutting without prior approval. All efforts should be concentrated on boosting output.

During the conference, Huang Zhihe [7806 1807 0735], president of the Locomotive and Rolling Stock, made a report entitled "Unite in Struggle, Work Hard in the Face of Difficulties, and Win New Victories in Boosting Industrial Production." The Qishuyan, Dalian, Shenyang, Meishan, Sifang, Tangshan, and Zhuzhou rolling stock plants, the Ziyang, Liuzhou, and Changchun locomotive plants, the Changchun passenger car plant, and the Qishuyan Locomotive and Rolling Stock Research Institute reported on their experiences in working hard and perseveringly to carry out reforms and renovations and develop diversified undertakings. The planning, finance, personnel and S & T bureaus of the Ministry of Railways made proposals on industrial reforms. The comrades present had a lively and serious discussion. They held that the conference was a mobilization and pep rally for the victory of the second battle to boost industrial output. This year's production tasks are arduous, and technological transformation will be fully under way. There are many difficulties, including rising prices and power shortages. But we will not be deterred by the price we have to pay or the objective difficulties we have to overcome. We are determined to work selflessly, intensify the reform, take up the heavy burden courageously, resolutely carry out the tasks of this year, make sure even at our own risks that the railways will fulfill their contract responsibilities, and make our due contributions to expanding railway transport capacities.

Comrade Cai Qinghua [5591 1987 5478], deputy director of the Political Department of the Ministry of Railways, attended the conference.

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## TRANSPORTATION

### RAILWAY TECHNOLOGICAL TRANSFORMATION ACCELERATED

Beijing RENMIN TIEDAO in Chinese 18 Feb 87 p 1

[Text] The Ministry of Railways is importing six major items of foreign technology to speed up the technological transformation of the locomotive and rolling stock industry.

The imported technologies are for the manufacturing of key diesel and electric locomotive components, refrigerator cars, and heavy-load train couplings, bumpers, and brakes. Their introduction will bring China's locomotive and rolling stock industry to the international level of the early 1980's. The introduction is proceeding smoothly according to contracts. The following items have already moved well along.

**Introduction of Diesel Locomotive Manufacturing and Maintenance Technologies:** Complete sets of manufacturing and maintenance technologies have been imported from the General Electric Co of the United States since 1985. First, a new Dongfeng-4 Model Diesel locomotive will be developed as a cooperation project. The Chinese side is responsible for the diesel engines, locomotive bodies, and rolling units. GE is responsible for the traction motors, electronic control equipment, and micromoputer control units. The project is aimed at upgrading the China-made Dongfeng-4 locomotive, increasing its propulsion from 3,300 hp to 4,000 hp and maximum speed from 100 km/hr to 118 km/hr, reducing its diesel engine fuel consumption from 155 gm/hp-hr to 150 gm/hp-hr, and lengthening its overhaul cycle from every 500,000 km to every 800,000 km. Second, the manufacturing technologies for 10 key components of the ND-5 diesel locomotive, including traction motors, electronic control equipment, air filters, traction gear wheels, etc., will be imported in order to enable China to produce replacement parts for imported locomotives. At the same time, these advanced technologies and processes can also be applied on Chinese-built locomotives. So far, 35 sets of technological materials have been received from GE, and the transfer of drawings and other materials is nearly complete. Third, diesel locomotive overhaul technologies will be imported to put and end to China's inability to overhaul imported locomotives. While introducing the technologies, some key manufacturing equipment, such as computer-controlled machining centers, automated flexible processing lines, numerical-control machine tools for flexible processing, heat-treatment equipment, testing equipment, etc., to improve the quality and increase the production capacity of locomotives.



**Introduction of Manufacturing Technologies for Eight Major Electric Locomotive Components:** In connection with the purchase of 150 8K electric locomotives from France, China signed 20 contracts with West Europe's 50 He-zi [6378 5417] Group represented by the Alsthom Co of France for the free transfer of manufacturing technologies for eight major components of the electric locomotives (bogies, traction motors, main transformers, main rectifiers, auxiliary converters, electronic control devices, pantographs, and reverser air choppers). Some of these technologies are the most advanced in the world today. It is estimated that a prototype locomotive can be produced by the end of 1988.

**Introduction of Technologies in Connection With Refrigerator Cars:** While ordering 1,000 refrigerator cars from the GDR, a contract was signed for importing technologies on double-wall structures, refrigeration units, fluorine-resistant motors, and aluminum alloy castings. At present, the contract is being carried out, and training of personnel has begun.

**Introduction of British Passenger Train Technologies for the Transformation of the Changchun Passenger Car Plant:** In May 1986, using a World Bank loan, the Ministry of Railways signed a contract with the British Railway Engineering Co, under which the British side will play a major part in jointly designing a non-air-conditioned hard-seat passenger car, an air-conditioned hard-seat passenger car, and an air-conditioned carriage with soft berths. The British side will provide the technological data and training. After tests are met, prototype cars will be manufactured by the Changchun Passenger Car Plant. In addition, the British side will provide consulting services for the technological transformation of the Changchun plant to raise its annual production capacity to 1,500 cars. The Ministry of Railways already sent its designing personnel to Britain in the last August to participate in the joint designing work, which is expected to be completed in June this year.

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## PRC MEDIA ON FOREIGN ECONOMIES

### U.S. BANKS URGED TO NEGOTIATE WITH BRAZIL

HK250806 Beijing RENMIN RIBAO in Chinese 22 Apr 87 p 7

["Economic Jottings" by Yi Yun [0076 0061]: "The Deadlock Must Be Broken"]

[Text] In early April, three American banks announced that, because Brasilia declared that it would indefinitely suspend payment of its foreign debt interest, they decided to list their loans to Brasilia as bad debts. This is tantamount to announcing that Brasilia cannot pay its debts and will therefore no longer be entitled to new loans. This measure has sharpened the contradiction on world debts.

As everybody knows, the Brazilian Government had no alternative but to declare on 20 February the indefinite suspension of payment of its foreign debt interest. Brasilia owes a total of \$108.8 billion in foreign debts. In the face of such a heavy debt burden, the Brazilian Government has consistently upheld the principle of promoting debt payment through development. Two years ago, the Brazilian Government adopted some regulatory measures that facilitated exports, increased the foreign trade surplus, and improved the economic situation. For this reason, although Brasilia hardly obtained any new loans, it paid the principal plus interest for that year and gained a reputation. In February this year, the Brazilian Government implemented the ("Crusado") plan to overcome high inflation. In the second half of last year, however, inflation again gained ground. Moreover, with the emergence of overheated domestic consumption, many export commodities were sold on the domestic market. This, coupled with the slumping prices of raw materials on the international market and the constant devaluation of the U.S. dollar, sharply reduced Brazil's foreign exchange reserves. Given a shortage of foreign exchange, continuous payment of huge foreign debt interest would inevitably affect Brazil's economic development and even political stability. Therefore, having met with temporary debt payment difficulties, the Brazilian authorities had to adopt some measures to reverse the situation. In a certain sense, the temporary suspension of foreign debt interest payment by Brasilia today is aimed at the possibility of paying debts in the future on the basis of economic development.

The U.S. creditor banks will naturally face certain difficulties if they fail to recover the principal and interest of their loans. However, the measure of sharpening the contradiction taken by the three American banks will not only be unable to solve the problem but will even lead to serious consequences. In the end, if Brasilia cannot pay its debts, the creditor banks will also be out of luck.

In the world economy today in which all countries are increasingly inter-dependent, the creditor banks in developed countries, while considering their own interests, should also take more into account the difficulties of debtor countries. They should understand that it is wise on the part of debtor countries to opt for "debt payment and, more important, development" because this also benefits the creditor countries. The best thing for the American creditor banks to do is to conduct serious negotiations and consultation with Brasilia to break the deadlock.

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